

Form F. R. 567

END SHEET

KIND OF MATERIAL OR NUMBER

333.3-a

NAME OR SUBJECT

**Federal Open Market Committee
Open Market Operations**

DATES (Inclusive)

Jan - Sept 1935

PART NUMBER

Part 2

FEDERAL RESERVE BOARD FILE

333.3-a

The Federal Advisory Council wishes to call the attention of the Board of Governors of the Federal Reserve System to the existence in the system of large amounts of Government bond holdings which have not varied for a long time. The whole theory of open market operations is to have sufficient flexibility to prevent undue expansion and contraction in the credit structure of the country and this may become impossible if the amount of Government bond holdings by the Federal reserve system is allowed to become a constant quantity. The Council would like to know whether the Board agrees with the principle here enunciated.

9/24/35

Statement submitted by the Federal Advisory Council at the meeting with the Federal Reserve Board 9/24/35.

orig. filed 130, 19-23-35 meeting

333.3-a

X-9314

Memorandum for the Board
From Mr. Morrill

September 12, 1935.

Carded

The last paragraph of section 10 of the Federal Reserve Act as amended by the Banking Act of 1935, approved August 23, 1935, reads as follows:

"The Board of Governors of the Federal Reserve System shall keep a complete record of the action taken by the Board and by the Federal Open Market Committee upon all questions of policy relating to open-market operations and shall record therein the votes taken in connection with the determination of open-market policies and the reasons underlying the action of the Board and the Committee in each instance. The Board shall keep a similar record with respect to all questions of policy determined by the Board, and shall include in its annual report to the Congress a full account of the action so taken during the preceding year with respect to open-market policies and operations and with respect to the policies determined by it and shall include in such report a copy of the records required to be kept under the provisions of this paragraph."

This provision of law became effective on August 23, 1935, the date of its approval by the President, and placed upon the Board the responsibility beginning with that date of keeping certain new records.

As a basis for the discussion of the procedure to be followed in compliance with this provision of law it should be observed that it provides for three records, as follows:

(1) A complete record of the actions taken by the Board of Governors of the Federal Reserve System upon all questions of policy relating to open market operations and with respect to all other questions of policy determined by the Board. This record is required to be kept of all actions taken by the Board on questions of policy determined since the enactment of the Banking Act of 1935.

(2) A complete record of the actions taken by the Federal Open Market Committee as constituted until March 1, 1936, upon all questions of policy relating to open market operations. This record is required to be kept by the Board as to all actions taken by the committee after the enactment of the Banking Act of 1935, notwithstanding the fact that the members of the Board are not members of the committee.

(3) A complete record of the actions taken by the Federal Open Market Committee which is to come into existence on March 1, 1936, under the terms of the Banking Act of 1935, upon all questions of policy relating to open market operations. This record is required to be kept by the Board of all actions on questions of policy taken by the committee, notwithstanding the fact that the actions taken will be those of the Committee

as such and not of the Board as such.

Inasmuch as the procedure to be followed by the Board with respect to all questions of policy determined by it, regardless of whether they relate to open market operations or not, is the one of immediate importance in point of time, it will be taken up first in this memorandum.

1. Board's record of its own actions.

It will be noted that the Board as such is required

(1) to keep a record of the actions taken by it upon all questions of policy relating to open market operations and on all other questions of policy determined by it in which shall be set forth (a) the votes taken in connection with the determination of such policies and (b) the reasons underlying the action in each instance;

(2) to publish in its annual report a full account of the actions so taken during the preceding year; and

(3) to include in such annual report a copy of the records required to be kept under the new provision of law.

The official minutes of the Board are prepared in sufficient detail to show, in connection with each entry of action taken with respect to any question of policy determined by the Board, the votes taken and the reasons given as underlying the action taken. However, the minutes of the Board are not confined to such questions. They include many details and a great deal of routine business. There are also minutes of executive committee meetings in addition to those of Board meetings. For these reasons, and in order to carry out the new requirements of law, it is contemplated that a separate record shall be established entitled "Record of Actions on Questions of Policy by Board of Governors of the Federal Reserve System required by the last paragraph of section 10 of the Federal Reserve Act as amended by the Banking Act of 1935". This will be in addition to the Board's minutes which will be kept in accordance with existing procedure.

In this new record would be incorporated entries of all actions taken by the Board on questions of policy determined by it, showing the votes taken and the reasons given as underlying the actions taken. These entries would not necessarily be as detailed or voluminous as the minutes but would contain the required information and be entirely in harmony with the minutes.

In this connection special consideration should be given to the procedure to be followed with respect to actions taken when a quorum of the Board is not actually present. These actions are taken by the executive committee or an interim committee pursuant to the provisions of the Board's bylaws. However, it is believed that such actions, when they constitute actions or questions of policy, should be incorporated currently

in the new record, showing, as in the case of Board meetings, the members who took the action, without waiting until the date on which the minutes containing such action are approved at a meeting of the Board at which a quorum is present.

While it is believed that in order to comply with the new provision of law every action of the Board taken subsequent to August 23, 1935, making any change in existing policy as well as every action establishing any new policy should be included in this record, it is believed unnecessary to include entries of actions taken subsequent to the enactment of the Banking Act of 1935 which merely carry out or conform to policies adopted by the Board prior to the enactment of the Banking Act of 1935, without change in such policies. For example the grant of permission to exercise trust powers or the issuance of a temporary limited voting permit would not ordinarily be regarded as the determination of a question of policy. It may be proper also to omit from this record actions recorded in the minutes which merely permit exceptions in particular instances to general policies previously adopted, without the determination by the Board of any change therein or of any new policy. In addition, the issuance by the Board of rulings merely interpreting the law or the Board's regulations in accordance with the opinion of the Board's counsel would not be regarded as action on questions of policy, in the absence of special circumstances.

Specific reference in entries in the official minutes of the Board to the names of individuals, banks, corporations and other organizations would be eliminated in the new record (unless necessary for a proper understanding of the record) through appropriate substitutions for such references, such as the words "an individual" for the name of a person, the words "a State member bank" or "a national bank" for the name of a specific member bank, etc. Portions of the discussion referring to the internal administration of the Board's affairs and other details in the entries of the official minutes which are not considered to be necessary for a proper understanding of the action taken and the underlying reasons therefor would also be eliminated.

A proposed title page and fly leaf of the new record to be kept by the Board and samples of extracts from the minutes which it is proposed to place in the record are attached.

Under the present procedure, as soon as the official minutes of the Board have been drafted a copy is circulated among the members for their approval and initials. In order to facilitate the preparation of the new record it is contemplated that there would be included in the covering circulation sheet accompanying each copy of the minutes a list briefly describing the items to be incorporated in the separate record. A sample of such a circulation sheet is attached. It would be considered that the initials on this circulation slip would not only constitute approval of the draft of the minutes but also approval of the inclusion in the record of the items referred to in the list. It is assumed that the Board will wish also to have a copy of the record as thereafter prepared in accordance

with this procedure circulated for approval and initials in the same manner as copies of the minutes are now circulated.

With respect to the record two forms might be established, the first of which would contain the entries in chronological order as they appear in the minutes. The other form might be one in which the entries would be classified and grouped according to subject matter. However, in view of the fact that the law requires that an account of all actions on questions of policy be included in the Board's annual report and that in such account the discussion is likely to be in narrative form, primarily according to subject matter, it would seem that the record in chronological order which could be kept up to date currently, together with an index which would classify and group the entries according to subject matter, would be sufficient without the second form of record above mentioned.

2. Board's Record of Actions Taken by Existing Federal Open Market Committee.

As previously indicated, the Board is required to keep a record of the actions taken by the Federal Open Market Committee as now constituted until it is replaced by the Federal Open Market Committee created by section 12A of the Federal Reserve Act as amended effective March 1, 1936.

The legal requirements which must be met in this connection are the same as those set forth on pages 1 and 2 of this memorandum with respect to the Board's record of its own actions. It is believed that the meaning of the requirements that the Board shall keep the record and that it shall record therein certain matters is that the Board is expected to make the record and that mere acceptance and custodianship of a record prepared by the committee of meetings at which the Board was not present or represented would not suffice. The question of procedure therefore requires special consideration because the membership of the present Federal Open Market Committee does not include any member of the Board of Governors and it has been the practice for the committee to hold meetings and take action at such meetings when the Board is neither present nor represented in any way. As a rule the Board has been dependent upon the oral reports of the chairman of the committee after it has held its separate meetings and taken action thereat. The formal minutes of the open market committee have been received by the Board at a considerably later date. The requirements of the law now suggest the necessity of giving consideration before the next meeting of the Federal Open Market Committee to the question of the attendance of the Board and its secretarial staff. The law provides that meetings of this committee may, in the discretion of the Board, be attended by members of the Board.

In this connection it may be pointed out that there have been only two meetings this year of the Federal Open Market Committee and that in order to comply with the law there should be two more meetings at Washington during the remaining months of this calendar year.

In view of the exceptional importance that might attach to actions taken by the Federal Open Market Committee the question which has been discussed heretofore should be determined definitely whether stenographic, verbatim reports should be made of such meetings. It is not considered that such a report is contemplated by the law, which requires a record only of the actions taken on questions of policy, of the votes taken in connection therewith, and of the underlying reasons for such actions. However, in some circumstances a stenographic report might be useful for reference purposes and as a basis for the record which the Board is required to establish. The possible effect of the making of a stenographic report upon the extent and freedom of discussion will of course be a factor in determining this question. In any event the stenographic report would not be treated as the "record" and would only be placed in the Board's files for purposes of reference in the discretion of the Board.

If such a report should be desired it will be necessary either to make arrangements with an outside expert stenographic reporter for services to be rendered from time to time as needed or to employ and carry an expert stenographic reporter regularly on the payroll of the Board. If an expert stenographic reporter were employed and carried regularly on the payroll of the Board it is likely that there would not be sufficient stenographic reporting work to keep him constantly in good training, and there would be difficulty in getting a competent person to accept employment in such circumstances. If an arrangement were made with an outside stenographic reporter consideration should be given to the desirability of requiring that his transcriptions be made at the offices of the Board and that his stenographic notes as well as transcriptions be left in the offices of the Board's Secretary staff. Such a person not only must be unquestionably competent but also one who can be relied upon not to give any information to any one regarding the meetings which he attends.

In recognition of the fact that at present the Governors of the Federal reserve banks constitute the membership of the Federal Open Market Committee and that, in order to insure the correctness of the record with special reference to the statement of the underlying reasons for actions taken, some plan should be adopted for avoiding delay in obtaining their approval of the record as well as that of the Board of Governors of the Federal Reserve System, it would seem desirable that consideration be given to the establishment of a procedure to be followed by the committee and the Board, before adjournment of the meetings of the Federal Open Market Committee, for determining the contents of the record. One suggestion that has been made is that a special sub-committee might be appointed for this purpose.

This record should be similar in form to the Board's record of its own actions and it is suggested that it be entitled "Record of Actions on questions of policy by the Federal Open Market Committee, required by the last paragraph of section 10 of the Federal Reserve Act as amended by the Banking Act of 1935".

3. Board's Record of Actions Taken by Federal
Open Market Committee Established effective
March 1, 1936.

When the new Federal Open Market Committee created effective March 1, 1936, begins to hold meetings and take actions the Board will be required to keep a record of such actions and to meet the same legal requirements which must be met in connection with the actions of the present Federal Open Market Committee and the Board's own actions. These requirements are set forth on pages 1 and 2 of this memorandum with respect to the Board's record of its own actions.

The questions to be considered in connection with this committee are different only in that the members of the Board of Governors of the Federal Reserve System will also be members of the Federal Open Market Committee, but the duty under the law of making the record of the actions of the committee is cast upon the Board of Governors as such and not merely upon the Federal Open Market Committee. Aside from this, the experience that will have been gained prior to March 1 in complying with the requirements of the law will very likely dispose of virtually all questions of procedure with respect to the actions of this committee.

Board's Annual Report

One of the requirements of the law is that the Board shall include in its annual report to the Congress a full account of the actions taken "during the preceding year with respect to open market policies and operations and with respect to the policies determined by it and shall include in such report a copy of the records required to be kept".

For this purpose it is assumed that the records kept in compliance with this requirement of the law should be attached to the annual report as appendices and that the account of the actions taken will be a narrative in orderly form which will be included in the text of the annual report and will be based upon and refer to the records included in the appendices. While it may be open to question whether the account in the next annual report, which will be submitted in 1936 for the calendar year 1935, is technically required to cover the entire year 1935 or only the period subsequent to August 23, 1935, it would not seem necessary to give serious consideration to this question as there would seem to be no undue difficulty in making the account cover the entire year and it is assumed that the Board will desire to do so.

Summary

Summarizing the foregoing matters the points to be decided by the Board cover the determination of the following matters:

1. The approval of the proposed procedure and forms for keeping the record of the Board's actions.

2. The procedure and form for keeping the separate record of the actions of the Federal Open Market Committee as now constituted, including the question of attendance of the Board and its secretarial staff at meetings of the committee, and the matter of a stenographic verbatim report of all proceedings.

3. The procedure and form for keeping the separate record of the actions of the Federal Open Market Committee created effective March 1, 1936, including the question of attendance of the Board's secretarial staff at meetings of the committee, and the matter of a stenographic verbatim report of all proceedings.

X-9314-a

Tentative circulation slip to
accompany Board's minutes.

X

*Attached is a copy of the minutes of the meeting of the Executive Committee of the Board of Governors of the Federal Reserve System held on August 23, 1935.

It is proposed that extracts of the entries in this set of minutes commencing on the pages, and dealing with the subjects, referred to below will be placed in the separate record required to be kept under the provisions of Section 10 of the Federal Reserve Act.

Page 1. Service of Mr. Harrison as director of the B. I. S.

" 7. Letter re deposit of The Security Bank and Trust Company, Wharton, Texas.

If you approve these minutes and the foregoing list, please initial below:

Mr. Thomas _____

Mr. Hamlin _____

Mr. Miller _____

Mr. James _____

Mr. Szymczak _____

Mr. Clayton _____

X

*The minutes referred to are not attached as this is merely a draft of the proposed form.

X-9314-b

Tentative cover for
Board's record

X

Record of Actions on Questions of Policy

by the

Board of Governors of the Federal Reserve System

Required by the
Last paragraph of Section 10
of the
Federal Reserve Act as amended
by the
Banking Act of 1935

X

X-9314-c

Tentative fly leaf
in Board's record

X

This record has been prepared pursuant to the last paragraph of Section 10 of the Federal Reserve Act, as amended by the Banking Act of 1935, which reads as follows:

"The Board of Governors of the Federal Reserve System shall keep a complete record of the action taken by the Board and by the Federal Open Market Committee upon all questions of policy relating to open-market operations and shall record therein the votes taken in connection with the determination of open-market policies and the reasons underlying the action of the Board and the Committee in each instance. The Board shall keep a similar record with respect to all questions of policy determined by the Board, and shall include in its annual report to the Congress a full account of the action so taken during the preceding year with respect to open-market policies and operations and with respect to the policies determined by it and shall include in such report a copy of the records required to be kept under the provisions of this paragraph."

X

Sample entries in the Board's record.

Meeting of Executive Committee on Friday, August 23, 1935.

PRESENT: Mr. Eccles, Chairman
Mr. Thomas, Vice Chairman
Mr. Hamlin
Mr. Miller

The Chairman reported that he had discussed with the Treasury Department the proposed service of Mr. Harrison, Governor of the Federal Reserve Bank of New York, as a director of the Bank for International Settlements, that he had pointed out that it was felt that there were important questions of policy as well as law upon which the Administration should be fully advised before reaching a conclusion on the matter, and that he had submitted to the Secretary of the Treasury copies of a memorandum on this subject and an opinion of the Board's counsel, which he had been assured would receive careful consideration. He stated that, in view of the fact that he expected to leave Washington tomorrow, August 24, for the West and would be absent during most of the month of September, he desired to recommend that if, during his absence, the question of Mr. Harrison's service as a director of the Bank for International Settlements be presented again, action on the matter be deferred. He suggested, however, that, if in the meantime the Board were advised that it had been found to be desirable from the standpoint of the Administration to have Mr. Harrison attend the October meeting of the board of directors of the Bank for International Settlements as an unofficial observer, the Board grant permission to Mr. Harrison to do so, with the understanding that he would report to the Board fully in writing in accordance with the requirements of the provisions of section 14(g) of the Federal Reserve Act.

The matter was discussed, and it was moved:

(1) that, if the question of Mr. Harrison's service as a director of the Bank for International Settlements be presented to the Board during Mr. Eccles' absence, action on the matter be deferred and;

(2) that if the Board be advised that it is considered by the Administration desirable for Mr. Harrison to attend the October meeting of the board of directors of the Bank for International Settlements in an unofficial capacity, the Board be prepared to grant permission to Mr. Harrison, as it did upon the occasion of his attendance at a meeting of the board of directors of the Bank for International Settlements in 1934, with the understanding that Mr. Harrison will submit a report to the Board in writing in accordance with the requirements of section 14(g) of the Federal Reserve Act.

The motion was put by the chair and was carried unanimously.

X-9314-e

Meeting of Executive Committee on Monday, August 26, 1935.

PRESENT: Mr. Thomas, Vice Chairman
Mr. Hamlin
Mr. Miller
Mr. James

Letter to the Federal reserve agent of a Federal reserve bank, calling attention to the analysis of the report of examination of a State member bank as of June 1, 1935, in which reference was made to an "excess balance" being carried by the member bank with an unincorporated firm of private bankers and in connection with which the question was raised whether the provisions of Section 19 of the Federal Reserve Act, restricting deposits by a member bank with a non-member "State bank or trust company" to a sum not in excess of ten per cent of the member bank's capital and surplus is applicable to a deposit by a member bank with such a firm of private bankers. The letter stated that, in view of the terms of the limitation contained in Section 19, it appears that such limitation is not applicable to a deposit by a member bank with an unincorporated firm of private bankers; that the Board had heretofore considered circumstances having a bearing on this conclusion in connection with other provisions of the Federal Reserve Act, and had reached the conclusion (in a ruling published at page 693 of the Federal Reserve Bulletin for September, 1917) that the Federal reserve banks are not authorized to receive deposits from unincorporated private bankers under the provisions of Section 13 of the Federal Reserve Act and (in a ruling published at page 108 of the Federal Reserve Bulletin for February, 1935) that amounts due to and from private bankers may not be included by member banks in amounts due to and from "other banks" in computing the reserves required to be maintained by member banks under the provisions of Section 19 of the Federal Reserve Act.

The letter stated further that, however, the purpose of the provision referred to is obviously to restrict the amount of deposits of member banks in banking institutions which are not members of the Federal Reserve System and that, therefore, it is felt that the carrying of the balance in question is contrary to the spirit and purpose of the Federal Reserve Act and should be discouraged, even if it is not technically in violation of the letter of the law, and it is suggested that the agent advise the member bank accordingly.

Unanimously approved.

X-9314

Memorandum for the Board
From Mr. Morrill

September 12, 1935.

133.3-a

The last paragraph of section 10 of the Federal Reserve Act as amended by the Banking Act of 1935, approved August 23, 1935, reads as follows:

TO

"The Board of Governors of the Federal Reserve System shall keep a complete record of the action taken by the Board and by the Federal Open Market Committee upon all questions of policy relating to open-market operations and shall record therein the votes taken in connection with the determination of open-market policies and the reasons underlying the action of the Board and the Committee in each instance. The Board shall keep a similar record with respect to all questions of policy determined by the Board, and shall include in its annual report to the Congress a full account of the action so taken during the preceding year with respect to open-market policies and operations and with respect to the policies determined by it and shall include in such report a copy of the records required to be kept under the provisions of this paragraph."

This provision of law became effective on August 23, 1935, the date of its approval by the President, and placed upon the Board the responsibility beginning with that date of keeping certain new records.

As a basis for the discussion of the procedure to be followed in compliance with this provision of law it should be observed that it provides for three records, as follows:

(1) A complete record of the actions taken by the Board of Governors of the Federal Reserve System upon all questions of policy relating to open market operations and with respect to all other questions of policy determined by the Board. This record is required to be kept of all actions taken by the Board on questions of policy determined since the enactment of the Banking Act of 1935.

(2) A complete record of the actions taken by the Federal Open Market Committee as constituted until March 1, 1936, upon all questions of policy relating to open market operations. This record is required to be kept by the Board as to all actions taken by the committee after the enactment of the Banking Act of 1935, notwithstanding the fact that the members of the Board are not members of the committee.

(3) A complete record of the actions taken by the Federal Open Market Committee which is to come into existence on March 1, 1936, under the terms of the Banking Act of 1935, upon all questions of policy relating to open market operations. This record is required to be kept by the Board of all actions on questions of policy taken by the committee, notwithstanding the fact that the actions taken will be those of the Committee

IT

as such and not of the Board as such. ✓

Inasmuch as the procedure to be followed by the Board with respect to all questions of policy determined by it, regardless of whether they relate to open market operations or not, is the one of immediate importance in point of time, it will be taken up first in this memorandum. 10

1. Board's record of its own actions.

It will be noted that the Board as such is required

(1) to keep a record of the actions taken by it upon all questions of policy relating to open market operations and on all other questions of policy determined by it in which shall be set forth (a) the votes taken in connection with the determination of such policies and (b) the reasons underlying the action in each instance;

(2) to publish in its annual report a full account of the actions so taken during the preceding year; and

(3) to include in such annual report a copy of the records required to be kept under the new provision of law.

The official minutes of the Board are prepared in sufficient detail to show, in connection with each entry of action taken with respect to any question of policy determined by the Board, the votes taken and the reasons given as underlying the action taken. However, the minutes of the Board are not confined to such questions. They include many details and a great deal of routine business. There are also minutes of executive committee meetings in addition to those of Board meetings. For these reasons, and in order to carry out the new requirements of law, it is contemplated that a separate record shall be established entitled "Record of Actions on Questions of Policy by Board of Governors of the Federal Reserve System required by the last paragraph of section 10 of the Federal Reserve Act as amended by the Banking Act of 1935". This will be in addition to the Board's minutes which will be kept in accordance with existing procedure.

In this new record would be incorporated entries of all actions taken by the Board on questions of policy determined by it, showing the votes taken and the reasons given as underlying the actions taken. These entries would not necessarily be as detailed or voluminous as the minutes but would contain the required information and be entirely in harmony with the minutes.

In this connection special consideration should be given to the procedure to be followed with respect to actions taken when a quorum of the Board is not actually present. These actions are taken by the executive committee or an interim committee pursuant to the provisions of the Board's bylaws. However, it is believed that such actions, when they constitute actions or questions of policy, should be incorporated currently

in the new record, showing, as in the case of Board meetings, the members who took the action, without waiting until the date on which the minutes containing such action are approved at a meeting of the Board at which a quorum is present. 10

While it is believed that in order to comply with the new provision of law every action of the Board taken subsequent to August 23, 1935, making any change in existing policy as well as every action establishing any new policy should be included in this record, it is believed unnecessary to include entries of actions taken subsequent to the enactment of the Banking Act of 1935 which merely carry out or conform to policies adopted by the Board prior to the enactment of the Banking Act of 1935, without change in such policies. For example the grant of permission to exercise trust powers or the issuance of a temporary limited voting permit would not ordinarily be regarded as the determination of a question of policy. It may be proper also to omit from this record actions recorded in the minutes which merely permit exceptions in particular instances to general policies previously adopted, without the determination by the Board of any change therein or of any new policy. In addition, the issuance by the Board of rulings merely interpreting the law or the Board's regulations in accordance with the opinion of the Board's counsel would not be regarded as action on questions of policy, in the absence of special circumstances. ?

Specific reference in entries in the official minutes of the Board to the names of individuals, banks, corporations and other organizations would be eliminated in the new record (unless necessary for a proper understanding of the record) through appropriate substitutions for such references, such as the words "an individual" for the name of a person, the words "a State member bank" or "a national bank" for the name of a specific member bank, etc. Portions of the discussion referring to the internal administration of the Board's affairs and other details in the entries of the official minutes which are not considered to be necessary for a proper understanding of the action taken and the underlying reasons therefor would also be eliminated. 10
C

A proposed title page and fly leaf of the new record to be kept by the Board and samples of extracts from the minutes which it is proposed to place in the record are attached.

Under the present procedure, as soon as the official minutes of the Board have been drafted a copy is circulated among the members for their approval and initials. In order to facilitate the preparation of the new record it is contemplated that there would be included in the covering circulation sheet accompanying each copy of the minutes a list briefly describing the items to be incorporated in the separate record. A sample of such a circulation sheet is attached. It would be considered that the initials on this circulation slip would not only constitute approval of the draft of the minutes but also approval of the inclusion in the record of the items referred to in the list. It is assumed that the Board will wish also to have a copy of the record as thereafter prepared in accordance 3t

with this procedure circulated for approval and initials in the same manner as copies of the minutes are now circulated. 12

With respect to the record two forms might be established, the first of which would contain the entries in chronological order as they appear in the minutes. The other form might be one in which the entries would be classified and grouped according to subject matter. However, in view of the fact that the law requires that an account of all actions on questions of policy be included in the Board's annual report and that in such account the discussion is likely to be in narrative form, primarily according to subject matter, it would seem that the record in chronological order which could be kept up to date currently, together with an index which would classify and group the entries according to subject matter, would be sufficient without the second form of record above mentioned. | ?

2. Board's Record of Actions Taken by Existing Federal Open Market Committee.

As previously indicated, the Board is required to keep a record of the actions taken by the Federal Open Market Committee as now constituted until it is replaced by the Federal Open Market Committee created by section 12A of the Federal Reserve Act as amended effective March 1, 1936.

The legal requirements which must be met in this connection are the same as those set forth on pages 1 and 2 of this memorandum with respect to the Board's record of its own actions. It is believed that the meaning of the requirements that the Board shall keep the record and that it shall record therein certain matters is that the Board is expected to make the record and that mere acceptance and custodianship of a record prepared by the committee of meetings at which the Board was not present or represented would not suffice. The question of procedure therefore requires special consideration because the membership of the present Federal Open Market Committee does not include any member of the Board of Governors and it has been the practice for the committee to hold meetings and take action at such meetings when the Board is neither present nor represented in any way. As a rule the Board has been dependent upon the oral reports of the chairman of the committee after it has held its separate meetings and taken action thereat. The formal minutes of the open market committee have been received by the Board at a considerably later date. The requirements of the law now suggest the necessity of giving consideration before the next meeting of the Federal Open Market Committee to the question of the attendance of the Board and its secretarial staff. The law provides that meetings of this committee may, in the discretion of the Board, be attended by members of the Board. 42

In this connection it may be pointed out that there have been only two meetings this year of the Federal Open Market Committee and that in order to comply with the law there should be two more meetings at Washington during the remaining months of this calendar year. 10

In view of the exceptional importance that might attach to actions taken by the Federal Open Market Committee the question which has been discussed heretofore should be determined definitely whether stenographic, verbatim reports should be made of such meetings. It is not considered that such a report is contemplated by the law, which requires a record only of the actions taken on questions of policy, of the votes taken in connection therewith, and of the underlying reasons for such actions. However, in some circumstances a stenographic report might be useful for reference purposes and as a basis for the record which the Board is required to establish. The possible effect of the making of a stenographic report upon the extent and freedom of discussion will of course be a factor in determining this question. In any event the stenographic report would not be treated as the "record" and would only be placed in the Board's files for purposes of reference in the discretion of the Board.

If such a report should be desired it will be necessary either to make arrangements with an outside expert stenographic reporter for services to be rendered from time to time as needed or to employ and carry an expert stenographic reporter regularly on the payroll of the Board. If an expert stenographic reporter were employed and carried regularly on the payroll of the Board it is likely that there would not be sufficient stenographic reporting work to keep him constantly in good training, and there would be difficulty in getting a competent person to accept employment in such circumstances. If an arrangement were made with an outside stenographic reporter consideration should be given to the desirability of requiring that his transcriptions be made at the offices of the Board and that his stenographic notes as well as transcriptions be left in the offices of the Board's Secretary staff. Such a person not only must be unquestionably competent but also one who can be relied upon not to give any information to any one regarding the meetings which he attends.

In recognition of the fact that at present the Governors of the Federal reserve banks constitute the membership of the Federal Open Market Committee and that, in order to insure the correctness of the record with special reference to the statement of the underlying reasons for actions taken, some plan should be adopted for avoiding delay in obtaining their approval of the record as well as that of the Board of Governors of the Federal Reserve System, it would seem desirable that consideration be given to the establishment of a procedure to be followed by the committee and the Board, before adjournment of the meetings of the Federal Open Market Committee, for determining the contents of the record. One suggestion that has been made is that a special sub-committee might be appointed for this purpose. 10-1

This record should be similar in form to the Board's record of its own actions and it is suggested that it be entitled "Record of Actions on questions of policy by the Federal Open Market Committee, required by the last paragraph of section 10 of the Federal Reserve Act as amended by the Banking Act of 1935". 5t

X-9314

-6-

10

3. Board's Record of Actions Taken by Federal
Open Market Committee Established effective
March 1, 1936.

When the new Federal Open Market Committee created effective March 1, 1936, begins to hold meetings and take actions the Board will be required to keep a record of such actions and to meet the same legal requirements which must be met in connection with the actions of the present Federal Open Market Committee and the Board's own actions. These requirements are set forth on pages 1 and 2 of this memorandum with respect to the Board's record of its own actions.

The questions to be considered in connection with this committee are different only in that the members of the Board of Governors of the Federal Reserve System will also be members of the Federal Open Market Committee, but the duty under the law of making the record of the actions of the committee is cast upon the Board of Governors as such and not merely upon the Federal Open Market Committee. Aside from this, the experience that will have been gained prior to March 1 in complying with the requirements of the law will very likely dispose of virtually all questions of procedure with respect to the actions of this committee.

Board's Annual Report

One of the requirements of the law is that the Board shall include in its annual report to the Congress a full account of the actions taken "during the preceding year with respect to open market policies and operations and with respect to the policies determined by it and shall include in such report a copy of the records required to be kept".

For this purpose it is assumed that the records kept in compliance with this requirement of the law should be attached to the annual report as appendices and that the account of the actions taken will be a narrative in orderly form which will be included in the text of the annual report and will be based upon and refer to the records included in the appendices. While it may be open to question whether the account in the next annual report, which will be submitted in 1936 for the calendar year 1935, is technically required to cover the entire year 1935 or only the period subsequent to August 23, 1935, it would not seem necessary to give serious consideration to this question as there would seem to be no undue difficulty in making the account cover the entire year and it is assumed that the Board will desire to do so.

Summary

Summarizing the foregoing matters the points to be decided by the Board cover the determination of the following matters:

1. The approval of the proposed procedure and forms for keeping the record of the Board's actions.

10

2. The procedure and form for keeping the separate record of the actions of the Federal Open Market Committee as now constituted, including the question of attendance of the Board and its secretarial staff at meetings of the committee, and the matter of a stenographic verbatim report of all proceedings.

3. The procedure and form for keeping the separate record of the actions of the Federal Open Market Committee created effective March 1, 1936, including the question of attendance of the Board's secretarial staff at meetings of the committee, and the matter of a stenographic verbatim report of all proceedings.

7x

X-9314-a

10

Tentative circulation slip to
accompany Board's minutes.

X

*Attached is a copy of the minutes of the meeting of the Executive Committee of the Board of Governors of the Federal Reserve System held on August 23, 1935.

It is proposed that extracts of the entries in this set of minutes commencing on the pages, and dealing with the subjects, referred to below will be placed in the separate record required to be kept under the provisions of Section 10 of the Federal Reserve Act.

Page 1. Service of Mr. Harrison as director of the B. I. S.

" 7. Letter re deposit of The Security Bank and Trust Company, Wharton, Texas.

If you approve these minutes and the foregoing list, please initial below:

Mr. Eccles _____

Mr. Thomas _____

Mr. Hamlin _____

Mr. Miller _____

Mr. James _____

Mr. Szymczak _____

Mr. Clayton _____

X

*The minutes referred to are not attached as this is merely a draft of the proposed form.

85

X-9314-b

10

Tentative cover for
Board's record

X

Record of Actions on Questions of Policy

by the

Board of Governors of the Federal Reserve System

Required by the
Last paragraph of Section 10
of the
Federal Reserve Act as amended
by the
Banking Act of 1935

X

92

X-9314-c

10

Tentative fly leaf
in Board's record

X

This record has been prepared pursuant to the last paragraph of Section 10 of the Federal Reserve Act, as amended by the Banking Act of 1935, which reads as follows:

"The Board of Governors of the Federal Reserve System shall keep a complete record of the action taken by the Board and by the Federal Open Market Committee upon all questions of policy relating to open-market operations and shall record therein the votes taken in connection with the determination of open-market policies and the reasons underlying the action of the Board and the Committee in each instance. The Board shall keep a similar record with respect to all questions of policy determined by the Board, and shall include in its annual report to the Congress a full account of the action so taken during the preceding year with respect to open-market policies and operations and with respect to the policies determined by it and shall include in such report a copy of the records required to be kept under the provisions of this paragraph."

X

10 X

X-9314-d

Sample entries in the Board's record.Meeting of Executive Committee on Friday, August 23, 1935. 10

PRESENT: Mr. Eccles, Chairman
 Mr. Thomas, Vice Chairman
 Mr. Hamlin
 Mr. Miller

The Chairman reported that he had discussed with the Treasury Department the proposed service of Mr. Harrison, Governor of the Federal Reserve Bank of New York, as a director of the Bank for International Settlements, that he had pointed out that it was felt that there were important questions of policy as well as law upon which the Administration should be fully advised before reaching a conclusion on the matter, and that he had submitted to the Secretary of the Treasury copies of a memorandum on this subject and an opinion of the Board's counsel, which he had been assured would receive careful consideration. He stated that, in view of the fact that he expected to leave Washington tomorrow, August 24, for the West and would be absent during most of the month of September, he desired to recommend that if, during his absence, the question of Mr. Harrison's service as a director of the Bank for International Settlements be presented again, action on the matter be deferred. He suggested, however, that, if in the meantime the Board were advised that it had been found to be desirable from the standpoint of the Administration to have Mr. Harrison attend the October meeting of the board of directors of the Bank for International Settlements as an unofficial observer, the Board grant permission to Mr. Harrison to do so, with the understanding that he would report to the Board fully in writing in accordance with the requirements of the provisions of section 14(g) of the Federal Reserve Act.

The matter was discussed, and it was moved:

(1) that, if the question of Mr. Harrison's service as a director of the Bank for International Settlements be presented to the Board during Mr. Eccles' absence, action on the matter be deferred and;

(2) that if the Board be advised that it is considered by the Administration desirable for Mr. Harrison to attend the October meeting of the board of directors of the Bank for International Settlements in an unofficial capacity, the Board be prepared to grant permission to Mr. Harrison, as it did upon the occasion of his attendance at a meeting of the board of directors of the Bank for International Settlements in 1934, with the understanding that Mr. Harrison will submit a report to the Board in writing in accordance with the requirements of section 14(g) of the Federal Reserve Act.

The motion was put by the chair and was carried unanimously. 11 X

X-9314-e

Meeting of Executive Committee on Monday, August 26, 1935.

PRESENT: Mr. Thomas, Vice Chairman
 Mr. Hamlin
 Mr. Miller
 Mr. James

Letter to the Federal reserve agent of a Federal reserve bank, calling attention to the analysis of the report of examination of a State member bank as of June 1, 1935, in which reference was made to an "excess balance" being carried by the member bank with an unincorporated firm of private bankers and in connection with which the question was raised whether the provisions of Section 19 of the Federal Reserve Act, restricting deposits by a member bank with a non-member "State bank or trust company" to a sum not in excess of ten per cent of the member bank's capital and surplus is applicable to a deposit by a member bank with such a firm of private bankers. The letter stated that, in view of the terms of the limitation contained in Section 19, it appears that such limitation is not applicable to a deposit by a member bank with an unincorporated firm of private bankers; that the Board had heretofore considered circumstances having a bearing on this conclusion in connection with other provisions of the Federal Reserve Act, and had reached the conclusion (in a ruling published at page 693 of the Federal Reserve Bulletin for September, 1917) that the Federal reserve banks are not authorized to receive deposits from unincorporated private bankers under the provisions of Section 13 of the Federal Reserve Act and (in a ruling published at page 108 of the Federal Reserve Bulletin for February, 1935) that amounts due to and from private bankers may not be included by member banks in amounts due to and from "other banks" in computing the reserves required to be maintained by member banks under the provisions of Section 19 of the Federal Reserve Act.

The letter stated further that, however, the purpose of the provision referred to is obviously to restrict the amount of deposits of member banks in banking institutions which are not members of the Federal Reserve System and that, therefore, it is felt that the carrying of the balance in question is contrary to the spirit and purpose of the Federal Reserve Act and should be discouraged, even if it is not technically in violation of the letter of the law, and it is suggested that the agent advise the member bank accordingly.

Unanimously approved.

10

12 X

CIT IN FILES SECTION
APR 11 1938
333.3-a

MEMORANDUM REGARDING REGULATION BY FEDERAL
RESERVE BOARD OF OPEN MARKET PURCHASES
BY FEDERAL RESERVE BANKS.

file data 9/1/35

On April 14, 1922, Mr. Walter S. Logan, General Counsel of the Board, after stating that the Board had not prescribed any rules or regulations restricting or limiting the purchase of bonds and notes of the United States by Federal reserve banks, expressed the opinion that under the authority given to the Board in subdivision (b) of Section 14 and by Section 11(j) the Board "may at any time impose such restrictions or limitations as it deems desirable upon the exercise by Federal reserve banks of their power to make such purchases."

At a meeting of the Governors' Conference May 2-4, 1922, it was voted "to be the sense of the conference that each governor recommend to his directors that it be the policy of the bank to invest in Government securities only to the extent that it may be necessary from time to time to maintain earnings in amounts sufficient to meet expenses, including dividends and necessary reserves". Governor Norris voted "yes" with the understanding that his action carried no reflection on anything that the Federal Reserve Bank of Philadelphia had already done in respect to the purchase of government securities.

It was further voted that the principle should be adopted that nothing should prevent Federal reserve banks from buying government securities from or selling them to their own member banks, provided there is no violation of the principles defined in previous votes.

-2-

In addition, it was voted that the governors of the Federal Reserve Banks of Boston, New York, Philadelphia and Chicago be made a committee for the purpose of studying the question of coordination of buying and selling orders of Federal reserve banks and working out an orderly program for the handling of the buying and selling of government securities by Federal reserve banks through some centralized control.

Meetings of the committee, which was called the "Committee on Centralized Execution of Purchases and Sales of Government Securities by Federal Reserve Banks", were held in New York on May 16, July 12, and October 2, 1922, and at a meeting of the Governors' Conference on October 10-12, 1922, there were presented a report of the committee and the minutes of the meeting on October 2, 1922.

These minutes state that the committee considered a recommendation adopted at the meeting of the Federal Advisory Council on September 26, 1922, reading as follows:

"The Council reiterates its recommendation that the Federal Reserve Banks in their purchases of government obligations should not be governed by the necessity of covering their fixed charges and earning their dividends. The Council is strongly of the view that open market operations, particularly in so far as they touch investment in government securities, should be carried on under a uniform policy by the System as a whole. Council has learned with great satisfaction of the organization of a committee of Governors having supervision of transactions in government securities by the Federal Reserve banks.

"In the Council's opinion, the policy of the Federal Reserve System as a whole should be at this time not to increase any further its investments in Government securities."

-3-

and that following a full discussion of the recommendation, the committee voted to report to the Governors' Conference that it concurred in the recommendation.

The minutes also contain the following expression of views of the committee:

"Upon reviewing the investment operations of the Federal Reserve Banks during the year 1922 the Committee believes that there will be no dissent to the proposition that in purchasing Government securities too much attention must not be given to the consideration of earnings and dividends. Due to the fact that liquidation was still in process and that the money market was easy, with low rates, apparently no particular harm has resulted from these operations during the first half of the year. During the second half of the year the situation has changed and with that change there has arisen a need for a different policy, the belief being that increased attention must be paid by the System to the bearing of the investment operations of the Federal Reserve Banks upon the money market.

"At the present time indications point to increasing demand for loan funds which has been most in evidence in the New York market during recent weeks. The Committee is therefore of the opinion, in view of present conditions, that the investment policy of the Federal Reserve Banks, at least for the present, should give but minor consideration to the question of earnings and constant consideration to the effects, both directly and indirectly, which open market operations in Government securities have upon the condition and the course of the money market and the volume of credit. Looking at things from this standpoint, the committee, without wishing to lay down any invariable course of action, is nevertheless unanimously of the opinion that, with the heavy Treasury operations impending during the next eight months, there should be a well considered policy of systematically regulating the dealings in United States securities, with particular reference to the course of the money market and to the operations of the Treasury as one of the most important factors of the money situation, and recommends to the Federal Reserve Board the approval of such a policy.

-4-

"The Committee recommends to the Conference that the Federal Reserve Banks continue at regular intervals to make necessary reports of earnings and investments to the Committee, which the Committee will, in turn, distribute to all Federal Reserve Banks.

"In view of the foregoing, the Committee further requests the Conference to add to the duties of the Committee the making of recommendations from time to time to each Federal Reserve Bank as to the advisability of purchases or sales of Government securities, which recommendations will in every case receive serious consideration by the officers or directors of the several banks.

"It was further voted that a recommendation be made to the Governors' Conference that the Committee be continued until the Spring Conference, and that the name of E. R. Fancher, Governor of the Federal Reserve Bank of Cleveland, be added to membership."

At the Governors' Conference above referred to the recommendations contained in the minutes of the meeting of the committee were approved, including the addition of Governor Fancher of the Federal Reserve Bank of Cleveland to the membership of the committee.

Letters dated in February, 1923, from the Federal reserve banks indicate that the banks were cooperating in the purchase and sale of Government securities through the central committee, and in a letter dated February 17, 1923, from Governor Strong of the Federal Reserve Bank of New York, he stated that:

"Our feeling has been that through the coordination of policies now being effected, which include the Treasury, all Federal reserve banks and the foreign banks that we represent, it should be possible during 1923 to prevent any undue credit expansion, even though involving a sacrifice of earnings by reserve banks. The complement of any such program may involve necessary readjustments of discount rates."

-5-

On April 7, 1923 (X-3689), the Board advised the Governors of the Federal reserve banks formally of a resolution adopted by the Federal Reserve Board on March 22, 1923, with respect to open market purchases by Federal reserve banks. In this resolution it was stated among other things that "The Federal Reserve Board has never prescribed any limitation upon open market purchases by Federal reserve banks". The resolution recited among other things that "the amount, time, character, and manner of such purchases may exercise an important influence upon the money market" and that "an open market investment policy for the twelve banks composing the Federal reserve system is necessary in the interest of the maintenance of a good relationship between the discount and purchase operations of the Federal reserve banks and the general money market". The resolution of the Board thereupon laid down the following principles with respect to open market investment operations of the Federal reserve banks:

"(1) That the time, manner, character, and volume of open market investments purchased by Federal reserve banks be governed with primary regard to the accommodation of commerce and business and to the effect of such purchases or sales on the general credit situation.

(2) That in making the selection of open market purchases, careful regard be always given to the bearing of purchases of United States Government securities, especially the short-dated issues, upon the market for such securities, and that open market purchases be primarily commercial investments, except that Treasury certificates be dealt in, as at present, under so-called 'repurchase' agreement."

It was further resolved by the Federal Reserve Board that on and after April 1, 1923, the "Committee of Governors

-6-

on Centralized Execution of Purchases and Sales of Government Securities" be discontinued and be superseded by a new committee known as the "Open Market Investment Committee for the Federal Reserve System", said committee to consist of five representatives from the reserve banks and to be under the general supervision of the Federal Reserve Board; and that it be the duty of this committee to devise and recommend plans for the purchase, sale and distribution of the open market purchases of the Federal reserve banks in accordance with the above principles and such regulations as may from time to time be laid down by the Federal Reserve Board.

The letter of April 7, 1923, above mentioned, concluded with the statement that "In accordance with the informal agreement made at the time of the last Governors' Conference, the membership of the Open Market Investment Committee for the Federal Reserve System, will be identical with the membership of the old Committee, as follows:

Federal Reserve Bank of Boston
Federal Reserve Bank of New York
Federal Reserve Bank of Philadelphia
Federal Reserve Bank of Cleveland
Federal Reserve Bank of Chicago."

On March 31, 1930 (X-6556), the Board sent to all Federal reserve banks a statement of open market procedure as revised at a meeting of the Federal Reserve Board with representatives of the Federal reserve banks on March 25, 1930, and adopted by the Federal Reserve Board. The statement read in

-7-

part as follows:

"(1) The Open Market Investment Committee, as at present constituted, is hereby discontinued and a new committee, voluntary in character, to be known as the Open Market Policy Conference, is set up in its place."

The Open Market Policy Conference, which consisted of one representative from each Federal reserve bank, continued in existence until replaced by the Federal Open Market Committee created by section 12A of the Federal Reserve Act as amended by the Banking Act of 1933.

Gov. Eccles

Here is a memo made
up from our files showing
the various steps in the
development of the Open Market
Committee beginning in 1922.

Cm

333.3-a

June 13, 1935.

Mr. R. L. Austin, Chairman,
Federal Reserve Bank of Philadelphia,
Philadelphia, Pennsylvania.

Dear Mr. Austin:

Receipt is acknowledged of your letter of
June 12, 1935, in which you state that your board of direc-
tors, at its last meeting, upon being informed that the Fed-
eral Reserve Bank of Chicago was carrying an investment large-
ly in excess of its proportionate share in the Special Invest-
ment Account, whereas the participation of your bank in the
Account was considerably less than your proportionate share,
agreed to purchase \$10,000,000 of the Chicago reserve bank's
excess holdings in the Account, and that this purchase has been
made.

Your letter will be brought to the attention of the
members of the Federal Reserve Board.

Very truly yours,

L. P. Betha,
Assistant Secretary.

jcb



FILE COPY

Form No. 131

Office Correspondence

FEDERAL RESERVE
BOARD

Date May 29, 1955.

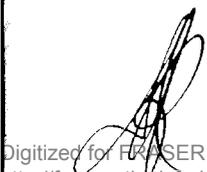
Messrs. Eccles, Thomas, Hamlin, Miller,
To James, Symczak individually.

Subject: 333.3-a

From Mr. Carpenter

OFFICIAL BUSINESS PENALTY FOR PRIVATE USE \$500

There is attached hereto, for your information, a copy of
see 5-24-35
the two resolutions adopted by the Federal Open Market Committee at
its meeting on May 27, 1955.



Form No. 131

Office Correspondence

FEDERAL RESERVE
BOARD

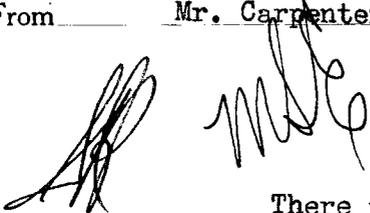
Date May 29, 1935.

To Governor Eccles

Subject: _____

From Mr. Carpenter

GPO 16-852



There is attached hereto, for your information, a copy of the two resolutions adopted by the Federal Open Market Committee at its meeting on May 27, 1935.

333,3-a

RESOLUTIONS ADOPTED BY THE FEDERAL OPEN MARKET
COMMITTEE ON MAY 27, 1935.

1. Voted that, superseding previous authorizations, the Executive Committee be authorized to make shifts between maturities of Government securities up to \$250,000,000.

2. Voted that the Executive Committee be authorized to buy or sell up to \$250,000,000 of Government securities subject to telegraphic approval of a majority of the Federal Open Market Committee and the approval of the Federal Reserve Board.

See
MAY 28 1935
SP.

333.3-a

5-27-35

Gov. Eccles

Here is the
correspondence with
Gov. Schallew that you
asked for today about
Chicago's participation
in the open market
portfolio.

CW

5/27

see 5-4-35 &

5-25-35

see letter 5/4/27 & 5/25/27

DECLASSIFIED
Authority EX Order 12356

333.3-a

Governor George J. Schaller
Federal Reserve Bank of Chicago
Chicago, Illinois

Dear Governor Schaller:

The Board has given consideration to your letter of May 4 transmitting the opinion of your directors that the participation of the Chicago Reserve bank in the System Investment Account should be adjusted to the proper percentage. It is suggested that the matter of a change in the distribution of the Investment Account among the individual Reserve banks be considered at the next meeting of the Federal Open Market Committee, which has been called for May 27.

The Board does not favor at this time reduction in the total holdings of United States Government securities by all Federal Reserve banks. The reasons for the Board's opinion on this matter are given in the attached memorandum, which discusses in some detail the arguments presented in your letter in favor of a reduction in your banks' holdings of Governments.

Very truly yours,

Chester Morrill
Secretary

Apud See

RECEIVED

MAY 28 1935

RKS

Eckles

Enclosure
WT:lc

W.D. Edge
LBC.

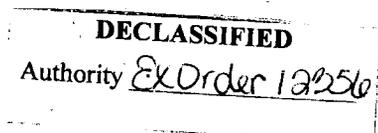
CW

mde

MM

W. H. Clegg

FILE COPY

CONFIDENTIAL

May 17, 1935

PROPOSAL FOR REDUCTION IN SYSTEM'S
SECURITY HOLDINGS

In a letter dated May 4 addressed to Governor Eccles, the Governor of the Federal Reserve Bank of Chicago indicated the desire on the part of the directors of his bank to reduce that bank's holdings of Government securities in the System's account to the proper percentage. The reasons given as a basis for this desire are practically all reasons in favor of a general reduction in the System's holdings of Government securities. Such action would mean a definite change in the System's open-market policy, which during recent years has been consistently in the direction of promoting easier money-market conditions.

The Chicago bank's participation in the System's account is substantially in excess of the standard ratio. Including holdings in its own portfolio, as well as participation in the System's open-market account, the Chicago bank holds slightly over 16 per cent of the total Government securities held by all of the Federal Reserve banks, whereas the ratio of expenses, dividends, and charge-offs in the year 1934 for the Chicago bank was 11 1/2 per cent of the System total. In dollar amounts the holdings of the Chicago bank are \$110,609,000 in excess of its pro rata share; in the System account alone the excess amounts to \$71,439,000.

It would no doubt be possible to transfer some of the excess holdings of the Chicago bank to other Reserve banks which hold less than their pro rata share. Some of the other banks could advantageously improve their earnings by increasing their holdings of Governments and this could be done in most cases without impairment of their reserve positions.

DECLASSIFIED
Authority *Ex Order 12956*

Page 2

The more fundamental and important questions raised by the reasons advanced by the Chicago bank are in effect arguments in favor of reduction in the System's holdings of Government securities. These reasons are briefly as follows:

1. It has been the System's policy in the past to offset gold imports and this was not done in the case of the imports of the last fifteen months.
2. The large volume of excess reserves has brought about artificially low rates on Treasury bills and other short-term open-market money, and this situation should be corrected.
3. It is an opportune time to reduce holdings because of the unusually strong market for Government securities. The Reserve banks could later increase their purchases in case help is needed to support the market. Any injurious effect to the market that might result from a decline in the Reserve bank holdings of Governments could be prevented by a statement indicating that the purpose was to reduce competition with member banks for short-term Government securities.
4. It is the duty of the System to withdraw credit when there is a substantial excess of credit.
5. It is not necessary to hold a large volume of Governments to check future expansion, because past experience indicates that this method is not successful against speculative movements. It would only result in heavy losses to holders of Government securities and would not affect prices of stocks and real estate.

In considering these reasons in favor of a reduction in holdings of Governments by the Reserve banks, it is desirable first to review the purposes for which the present large holdings have been acquired. The primary purpose was to create excess reserves in member banks and thereby to encourage these banks to find uses for their available funds. This tends to reduce interest rates, first in the open market, and later also to commercial borrowers. Lower interest rates reduce the costs of doing

DECLASSIFIED
Authority *EX Order 12956*

Page 3

business both to borrowers at short-term and to corporations issuing new securities and, therefore, tend to encourage borrowing for business purposes and the flotation of securities for refunding or for new capital. Another effect is to lower the cost of Government borrowing and thus to aid in the Government's recovery program, which is designed to reduce unemployment and to stimulate activity until private business begins to provide adequate employment. Excess reserves should not be reduced until there is evidence of excessive borrowing or of speculative expansion.

The policy of offsetting gold imports was followed only at times when the increased gold stock was leading to or was likely to lead to excessive expansion of credit. The gold imports of the last fifteen months have served to further the easy money policy pursued by the Federal Reserve System in 1932 and 1933 without the necessity of further action by the Reserve banks. Although it is impossible to say definitely, it is entirely likely that without large gold imports in 1934 the Federal Reserve banks would have had to increase their holdings of Government securities in the interests of recovery.

The existing low level of open-market rates on short-term money is the result not only of the large supply of excess reserves but also of the small demand for credit in the open market. More particularly the low rates reflect the preference of banks and other lenders for open-market uses of their funds over other uses. Rates on customers' loans, for example, have not shown a decline commensurate with the decline in open-market rates, although in New York City, which is more closely affected by developments in the open market, this decline has been substantial. There is no reason for taking action to raise rates so long as there is no evidence or prospect of an excessive use of funds by borrowers.

DECLASSIFIED
 Authority *Ex Order 12256*

Page 4

It is the duty of the Federal Reserve System to withdraw ^{funds} from the market when credit is excessive, but excessive credit is determined by the volume of member bank credit that is in active use rather than by excess reserves. There is as yet no evidence of an excessive use of bank credit.

It is stated that this is an opportune time to decrease the Reserve bank's holdings of Government securities because of the high price prevailing for these securities. Stabilization of the price of Government securities should not be a primary objective of Reserve bank open-market operations. The tradition that changes in the System's security holdings signify changes in monetary policy is a valuable aid to the successful prosecution of such a policy. This tradition is well established, so that reduction in the System's portfolio at this time would be likely to lead to general selling of Government securities by other holders, regardless of any explanation that the System may make of its policy.

It should be kept in mind that the market for Government securities is particularly sensitive at present because a large volume of funds awaiting employment in private enterprise is now temporarily invested in Governments by banks, investors, speculators, industrial and commercial concerns, and others. Any development which is likely to lead to lower prices for these securities would induce widespread liquidation of holdings. One reason in favor of a reduction in holdings advanced by the Chicago bank is the desirability of raising short-term money rates. If the holdings of the System are reduced sufficiently to cause an appreciable rise in rates on Treasury bills, prices of all Governments are likely to be affected.

Finally, it should be emphasized that it is desirable for the Federal Reserve banks to retain their government security holdings intact to be available as an instrument of restraint if an inflationary situation should develop.

DECLASSIFIED
 Authority *EX Order 12956*

Form No. 131

Office Correspondence

FEDERAL RESERVE BOARD

REC'D IN FILES SECTION
 DEC 14 1939 *K*
 Date: May 24, 1935
33303-2

To Mr. Goldenweiser

Subject: Holdings of U. S. Government securities of Federal Reserve special investment account, May 15, 1935.

From Miss Burr

ssB

16-352

The maturities of U. S. Government securities of the Federal Reserve special investment account as of May 15, 1935 show some changes as compared with January 2 of this year. The amount of securities maturing within from three to six months totaled \$117,000,000, which is \$339,000,000 less than for holdings on January 2; maturities within three months and within from six months to a year are now larger than on January 2. There is a small decrease in the holdings which mature in one year or more. The data are summarized in the following table:

HOLDINGS OF U. S. GOVERNMENT SECURITIES OF FEDERAL RESERVE
 SPECIAL INVESTMENT ACCOUNT, MAY 15, 1935

(In millions of dollars)

	May 15, 1935	<i>Increase + or decrease - from actual change</i>	
		Jan. 2, 1935	May 16, 1934
Total	2,223	0	0
By maturities:			
Within 15 days	38	+7	+18
16-30 days	41	+12	+41
31-60 days	205	+122	+86
61-90 days	197	+23	+39
3-6 months	117	-339	-302
6 months-1 year	390	+209	+116
1-5 years	1,033	-59	-84
over 5 years	203	+25	+85
By types of securities:			
Bills	526	+21	+117
Certificates	--	--	-337
Notes	1,422	+22	+261
Bonds	275	-44	-41

DECLASSIFIED
Authority *Ex Order 12956*

In the report of open-market operations for the week ended May 15, it is stated that the total of net shifts of maturities under the February 5 authorization is \$207,674,300.

Securities in the account on May 15 which mature within six months include in addition to weekly maturities of Treasury bills, \$99,000,000 of Treasury notes on June 15, \$25,000,000 of Consols called for July 1, \$2,000,000 of Panamas called for August 1, \$86,000,000 ~~more~~ of Treasury notes maturing on August 15, and \$45,000,000 of 4th Liberties called for October 15.

DECLASSIFIED
Authority *EX Order 12256*

Form No. 181

Office Correspondence

FEDERAL RESERVE BOARD

REC'D IN FILES SECTION
DEC 14 1939
MAY 21 1935
23383-2

Date

To Mr. Thomas

Subject: Suggested redistribution of

From Mr. Piser

System's holdings of Government

securities.

16-852

The present distribution by individual banks of the System's holdings of Government securities is not in accordance with the standard which has been set up for the System Special Investment Account. This standard, which is shown in table 1, column 2, is based upon the distribution of expenses, dividends, and charge-offs in the year 1934. At the present time the Chicago Reserve bank is holding about \$104,000,000 in excess of its pro-rata amount, and the New York bank is about \$64,000,000 in excess, while other banks are short by amounts ranging from \$1,000,000, in the case of San Francisco, to \$52,000,000 for the Philadelphia Reserve bank.

If all of the System's holdings of Government securities were placed in the System Special Investment Account and the distribution should be made on the basis of their participation ratios, the earnings of these banks would be equitably distributed and the reserve ratios would, in all but one case, ^(Dallas) exceed 50 percent. It is likely that such a redistribution of earnings assets is desirable and the position of the single bank whose reserve ratio would fall below 50 percent could be adjusted.

Table 2 shows the estimated annual earnings of the Federal Reserve banks from their Government security holdings. These estimated earnings are based upon weighted averages of the System Account's holdings of notes and bonds. The figure used for bills is approximately the average rate at which new bill offerings are issued.

DECLASSIFIED
Authority *EX Order 12956*

Mr. Thomas — #2

May 21, 1935

In table 3 is shown a suggested redistribution of the System's holdings of Government securities so arranged that the earnings of each Reserve bank are in proportion to their participation ratios and, at the same time, no Reserve bank has a ratio of less than 55 percent. The restoration of the ratio of the Dallas Federal Reserve bank is brought about by a net transfer of \$11,717,000 of securities to the Chicago Reserve bank. The earnings of the Dallas and Chicago banks are kept at the desired level by shifting \$12,297,000 of bills from Dallas to Chicago and \$580,000 of bonds from Chicago to Dallas. The earnings of these two blocks of securities are approximately equivalent.

Further shifts might be made whenever the reserve ratio of any individual bank approached the level of 50 percent.

TABLE 1
 UNITED STATES GOVERNMENT SECURITY HOLDINGS
 INDIVIDUAL FEDERAL RESERVE BANKS
 May 15, 1935
 (In thousands of dollars)

	Total holdings	Ratio of expenses, dividends and charge-offs 1934 (percent)	Theoretical participation	Over or short	Total reserves	Total reserves after shift	Deposit and F.R. note liabilities	Reserve ratio after shift
Boston	157,678	6 3/4	164,049	- 6,371	417,262	410,891	557,040	73.8
New York	744,318	28	680,499	+ 65,819	2,214,389	2,278,208	2,891,961	78.8
Philadelphia	167,120	9	218,732	- 51,612	319,832	268,220	469,059	57.2
Cleveland	213,025	9 3/4	236,960	- 23,935	449,538	425,603	642,576	66.2
Richmond	113,563	5 1/4	127,594	- 14,031	191,028	176,997	302,931	58.4
Atlanta	94,247	4	97,214	- 2,967	130,749	127,782	218,607	58.5
Chicago	383,843	11 1/2	279,491	+104,352	1,345,023	1,449,375	1,695,386	85.5
St. Louis	108,200	4 3/4	115,442	- 7,242	165,497	158,255	266,130	59.5
Minneapolis	70,711	3 3/4	91,138	- 20,427	150,650	130,223	217,196	60.0
Kansas City	106,844	5 1/4	127,594	- 20,750	218,600	197,850	323,910	61.1
Dallas	71,475	3 3/4	91,138	- 19,663	96,648	76,985	161,276	47.7
San Francisco	199,331	8 1/4	200,504	- 1,173	348,667	347,494	532,468	65.3
TOTAL	2,430,355	100	2,430,355	—	6,047,883	6,047,883	8,278,540	—

DECLASSIFIED
 Authority: E.O. Order 13250

DECLASSIFIED
 Authority *Ex Order 12956*

TABLE 2
APPROXIMATE ANNUAL EARNINGS
ON
UNITED STATES GOVERNMENT SECURITY HOLDINGS
FEDERAL RESERVE BANKS
May 15, 1935
(In thousands of dollars)

	Approximate interest rate	Holdings	Annual earnings
Bills	0.15	555,160	833
Notes	2.54	1,541,655	39,158
Bonds	3.18	333,542	10,607
TOTAL		2,430,355	50,598

TABLE 3

SUGGESTED DISTRIBUTION OF
SYSTEM'S HOLDINGS OF GOVERNMENT SECURITIES
(In thousands of dollars)

	Participation ratio	United States Government securities held				Total reserves	Deposit and F. R. note liabilities	Reserve ratio	Estimated an- nual earnings
		Bills	Notes	Bonds	Total				
Boston	6 3/4	37,473	104,062	22,514	164,049	410,891	557,040	73.8	3,415
New York	28	155,445	431,662	93,392	680,499	2,278,208	2,891,961	78.8	14,167
Philadelphia	9	49,964	138,749	30,019	218,732	268,220	469,059	57.2	4,554
Cleveland	9 3/4	54,128	150,311	32,521	236,960	425,603	642,576	66.2	4,933
Richmond	5 1/4	29,146	80,937	17,511	127,594	176,997	302,931	58.4	2,656
Atlanta	4	22,206	61,666	13,342	97,214	127,782	218,607	58.5	2,024
Chicago	11 1/2	76,142	177,290	37,776	291,208	1,437,658	1,695,386	84.8	5,819
St. Louis	4 3/4	26,370	73,229	15,843	115,442	158,255	266,130	59.5	2,403
Minneapolis	3 3/4	20,818	57,812	12,508	91,138	130,223	217,196	60.0	1,897
Kansas City	5 1/4	29,146	80,937	17,511	127,594	197,850	323,910	61.1	2,656
Dallas	3 3/4	8,521	57,812	13,088	79,421	88,702	161,276	55.0	1,897
San Francisco	8 1/4	45,801	127,186	27,517	200,504	347,494	532,468	65.3	4,174
TOTAL	100	555,160	1,541,653	333,542	2,430,355	6,047,883	8,278,540	--	50,598

Note: Holdings of Dallas bank decreased \$11,717⁰⁰⁰ to bring reserve ratio to 55 percent, and holdings of Chicago bank correspondingly increased. Earnings of Dallas and Chicago banks kept at desired level by shifting \$12,297⁰⁰⁰ of bills from Dallas to Chicago and \$580⁰⁰⁰ of bonds from Chicago to Dallas.

DECLASSIFIED
Authority: Ex Order 13256

DECLASSIFIED
Authority *Ex Order 12956*

Form No. 131

Office Correspondence

FEDERAL RESERVE BOARD

Date May 17, 1935

To Governor Eccles

Subject: 333.3-a

From Mr. Goldenweiser *[Signature]*

GPO 16-852

cm

see 5-25-35

I am transmitting herewith a proposed letter (to Governor Schaller, of Chicago, in reply to his letter of May 4) in which he suggests a reduction in the System's holdings of Government securities. Our suggestion is that a brief letter over Morrill's signature be sent to Schaller accompanied by a memorandum discussing the matter in some detail.

[Handwritten signature]

see letter 5/25/27

DECLASSIFIED
Authority Ex Order 12256

Form No. 131

Office Correspondence

FEDERAL RESERVE BOARD

RECEIVED
Date 3-3-1
May 13, 1955.
333.3-a

To Mr. Woodlief Thomas

Subject: Meetings of Federal Open

From Mr. Carpenter

Market Committee held in 1954.

16-852



In accordance with the provisions of the first paragraph of Section 12A of the Federal Reserve Act, four meetings of the Federal Open Market Committee were held in Washington during 1954. These meetings were held on: March 5, June 26, September 21, and December 17, 1954. The executive committee of the Federal Open Market Committee met from time to time throughout the year as occasion required (April 2, May 25, August 8, September 6-7, November 27).



DECLASSIFIED
Authority Ex Order 12256

Form No. 131

Office Correspondence

FEDERAL RESERVE
BOARD

Date May 13, 1935.

To Mr. Carpenter

Subject: 333.3-a

From Mr. Walters



GPO 16-852

Handed

Complying with your request, there is shown below a list of the dates of the meetings of the Federal Open Market Committee which, according to the records of the Federal Reserve Board, were held during the year 1934:

- March 5
- April 2 (Executive Committee)
- May 23 (Executive Committee)
- June 26
- August 8 (Executive Committee)
- September 6-7 (Executive Committee)
- September 21
- November 27 (Executive Committee)
- December 17

All of the meetings referred to above were held in Washington.

DECLASSIFIED
Authority Ex Order 12956

REC'D IN FILES SECTION
APR 4 1939
3333

EX - 82
5/11/35

NOT TO BE PUBLISHED

THE OPEN-MARKET PROVISIONS OF THE BANKING ACT
OF 1935 ARE CONSISTENT WITH THE UNDER-
LYING PRINCIPLES OF THE ORIGINAL
FEDERAL RESERVE ACT.

To concentrate in the Federal Reserve Board the ultimate authority over the open-market policy of the Federal Reserve System is consistent with the purpose and intent of the original Federal Reserve Act. The "chief purposes" of the Act were stated by Mr. Glass, Chairman of the House Banking and Currency Committee on page 11 of the Committee Report dated September 9, 1913, as follows:

"Essential Features of Reform.

The other plans before the committee or examined by it have likewise been found unsatisfactory - some for reasons analogous to those which made the Aldrich bill unacceptable, others because of defective detail, erroneous principle, or faulty construction. An effort was, however, made to ascertain the constituent elements of these measures and of the Aldrich bill, common to all, which should be recognized and provided for in any new plan because representing the fundamentals of legislation. It is believed that these are as follows:

1. Establishment of a more nearly uniform rate of discount throughout the United States, and thereby the furnishing of a certain kind of preventive against over-expansion of credit which should be similar in all parts of the country.
2. General economy of reserves in order that such reserves might be held ready for use in protecting the banks of any section of the country and for enabling them to go on meeting their obligations instead of suspending payments, as so often in the past.
3. Furnishing of an elastic currency by the abolition of the existing bond-secured note issue in whole or in part, and the substitution of a freely issued and adequately protected system of bank notes which should be available to all institutions which had the proper class of paper for presentation.

FOR FILES
A. M. Stone

Indexed Copy - 111.1-40
Digitized for FRASER
<http://fraser.stlouisfed.org/>
Federal Reserve Bank of St. Louis
- 333.34

DECLASSIFIED
Authority Ex Order 12956

L-82

- 2 -

4. Management and commercial use of the funds of the Government which are now isolated in the Treasury and sub-treasuries in large amounts.

5. General supervision of the banking business and furnishing of stringent and careful oversight.

6. Creation of market for commercial paper.

Other objects are sought, incidentally, in these plans, but they are not as basic as the chief purposes thus enumerated."

No one of the regional banks acting alone could furnish "a certain kind of preventive against over expansion of credit which should be similar in all parts of the country". Therefore, the Federal Reserve Board was created and given the power to require the twelve regional banks to "pursue a banking policy which shall be uniform and harmonious for the country as a whole".

There is abundant evidence that the framers of the legislation fully recognized that some of the purposes stated above should be under the control of the regional banks and that others should be under the control of a central organization. Although it was believed that such routine matters as the decision upon the extension of credit to a particular borrower or the discounting of a particular loan should be left to the judgment of the regional bank, it was clearly understood that important matters of policy which would have a profound effect upon the economic life of the entire nation should be vested in a national organization with a national viewpoint.

It should be observed, however, that this principle of centralizing control of the broad national functions of the Federal Reserve System in a Government board was not in the minds of the framers of the

DECLASSIFIED

Authority Ex Order 12256

- 3 -

L-82

Act during the early stages of its development but was first suggested by President Wilson in 1912 and later was accepted by the other men responsible for the enactment of the legislation. The circumstance under which President Wilson suggested the creation of the Federal Reserve Board "as a capstone" to the Federal Reserve System is related by Senator Glass, on pages 81 and 82, of his book "An Adventure in Constructive Finance".

"December 26, 1912, was a desperately cold day. The snow at Princeton was two feet deep. Dr. Willis, the committee expert, had accompanied the chairman, prepared to answer or discuss any purely technical question that might be projected. I had made a written divisional memorandum of the bill I desired to outline to Governor Wilson. The latter had a severe cold and was propped up on pillows in bed. He had cancelled every other engagement for the day, and at once it was suggested that he let us come another time when he might be in better trim; but he insisted on proceeding with the business, so intent was he on a speedy and sweeping currency reform. For two hours the situation was reviewed and the chairman's memorandum dissected. Toward the end, Mr. Wilson announced it as his judgment that we were 'far on the right track'; but offered quite a few suggestions, the most notable being one that resulted in the establishment of an altruistic Federal Reserve Board at Washington to supervise the proposed system. We had committed this function to the Comptroller of the Currency, already tsaristic head of the national banking system of the country. Mr. Wilson laughingly said he was for 'a plenty of centralization, but not for too much'. Therefore, he asked that a separate central board provision be drafted, to be used or not, as might subsequently be determined, 'as a capstone' to the system which had been outlined to him."

DECLASSIFIED
 Authority Ex Order 13256

- 4 -

L-82

In carrying out the plan originated by President Wilson for vesting important matters of national policy affecting the country as a whole in a Government board, the House Committee on Banking and Currency, in its report on the original Federal Reserve Act, made it clear that control over routine operations of banking was to be placed in the regional banks and that the determination of national policies was to be vested in the Federal Reserve Board. This is clearly shown by the following pages in the report on the original Federal Reserve Act submitted to the House of Representatives by Mr. Glass, on behalf of the Banking and Currency Committee, under date of September 9, 1913 (pp.16, 18,19 and 42):

" * * * In order that these banks may be effectively inspected, and in order that they may pursue a banking policy which shall be uniform and harmonious for the country as a whole, the committee proposes a general board of management intrusted with the power to overlook and direct the general functions of the banks referred to. To this it assigns the title of 'The Federal reserve board'.
 * * * "

* * * * *

" * * * The only factor of centralization which has been provided in the committee's plan is found in the Federal reserve board, which is to be a strictly Government organization created for the purpose of inspecting existing banking institutions and of regulating relations between Federal reserve banks and between them and the Government itself. Careful study of the elements of the problem has convinced the committee that every element of advantage found to exist in cooperative or central banks abroad can be realized by the degree of cooperation which will be secured through the reserve-bank plan recommended, while many dangers and possibilities of undue control of

DECLASSIFIED

Authority Ex Order 12256

L-82

- 5 -

the resources of one section by another will be avoided. Local control of banking, local application of resources to necessities, combined with Federal supervision, and limited by Federal authority to compel the joint application of bank resources to the relief of dangerous or stringent conditions in any locality are the characteristic features of the plan as now put forward. * * * It is proposed that the Government shall retain a sufficient power over the reserve banks to enable it to exercise a directing authority when necessary to do so, but that it shall in no way attempt to carry on through its own mechanism the routine operations of banking which require detailed knowledge of local and individual credit and which determine the actual use of the funds of the community in any given instance. In other words, the reserve-bank plan retains to the Government power over the exercise of the broader banking functions, while it leaves to individuals and privately owned institutions the actual direction of routine.

* * * * *

"In this section provision has been made for the creation of a general board of control acting on behalf of the National Government for the purpose of overseeing the reserve banks and of adjusting the banking transactions of one portion of the country, as well as the Government deposits therein, to those of other portions. * * * "

The power of carrying on the regular routine every-day business of the Federal reserve banks and of determining the local policies was entrusted to their respective boards of directors, but the Federal Reserve Board was created as "a general board of management" entrusted with the power to overlook and direct the general functions of the banks in order that the Board, on behalf of the Government, might retain power over the exercise of the "broader banking functions" affecting the country as a whole.

DECLASSIFIED
 Authority *Ex Order 12956*

-6-

L-82

The experience of the Federal Reserve System has demonstrated that the fixing of discount rates and the control of Open-market operations are correlative instruments of credit control and that the same principles which caused the framers of the Federal Reserve Act to grant final determination over discount rates to the Federal Reserve Board logically requires vesting of control of open-market operations in the same board. Section 14(d) of the original Federal Reserve Act vested final determination of the discount rate in the Federal Reserve Board by the following language:

"Every Federal reserve bank shall have power:

* * * * *

"(d) To establish from time to time, subject to review and determination of the Federal Reserve Board, rates of discount to be charged by the Federal reserve bank for each class of paper, which shall be fixed with a view of accommodating commerce and business;"

The following statement regarding this section is made at page 53 of the House Report on the original Act:

"* * * The power granted in subsection (d) to fix a rate of discount is an obvious incident to the existence of the reserve banks, but the power has been vested in the Federal reserve board to review this rate of discount when fixed by the local reserve bank at its discretion. This is intended to provide against the possibility that the local bank might be establishing a dangerously low rate of interest, which the reserve board, familiar as it would be with credit conditions throughout the country, would deem best to raise."

Although the language of section 14(d) making the power of the Federal Reserve banks to fix discount rates, "subject to review

DECLASSIFIED

Authority Ex Order 19256

- 7 -

L-82

and determination of the Federal Reserve Board" seems clear enough, the question was raised in 1919 as to whether the power of the Board was not limited to reviewing and approving or disapproving rates of discount made by the Federal Reserve banks. At this time it was contended that the Board had no power to initiate rates or to direct specific changes and alterations thereof. This question was submitted to the Acting Attorney General by Senator Glass, at that time Secretary of the Treasury, and, in an opinion rendered on December 9, 1919, Acting Attorney General Alex C. King held that the Board had the power to determine rates of discount and to require such rates to be put into effect by the Reserve banks. 32 Opinions of the Attorney General, page 81. In his Opinion, the Acting Attorney General stated the following:

"It is quite evident that if the Federal Reserve Board is confined to the power to review and approve or disapprove rates of discount made by the Federal reserve banks, and is without power to itself direct specific changes, the words 'and determination' are wholly without significance. The very significance of the word 'determination' used in such a connection, carries with it the right to pass upon and to decide and fix, and thus determine what should be done. Coupling this with the power given the Federal Reserve Board to supervise the business of each Federal Reserve Bank, taking also into consideration the recommendations contemplated by the Advisory Council to the Federal Reserve Board in regard to discount rates, such power would be futile if such Federal Reserve Board could not, if agreeing to such recommendations direct them to be carried out. I think it is quite clear that the Federal Reserve Board is the ultimate authority in regard to rediscount rates to be charged by the several Federal reserve banks and may prescribe such rates.

* * * * *

DECLASSIFIED

Authority *Ex Order 12256*

- 8 -

L-82

"The scheme of the entire act is to have Federal reserve banks in different parts of the country so that their operations may be accommodated to the business needs of each section and to vest final power in the Federal Reserve Board, so as to insure a conduct of business by each bank which will not be detrimental to the carrying out of the entire plan. The powers of the Federal Reserve Board are therefore to be exercised in regard to each reserve bank as the conditions surrounding said bank may dictate, keeping in view the general purpose and plan of the Federal Reserve Act. Bearing in mind such general purpose, I am of the opinion that the Federal Reserve Board has the right under the powers conferred by the Federal Reserve Act, to determine what rates of discount should be charged from time to time by a Federal reserve bank, and under their powers of review and supervision, to require such rates to be put into effect by such bank."

The statement of the Acting Attorney General that the scheme of the entire Federal Reserve Act was to vest final power in the Federal Reserve Board over the operations of the Reserve banks "so as to insure a conduct of business by each bank which will not be detrimental to the carrying out of the entire plan" is especially significant. Subsequent experience, however, has demonstrated that the Federal Reserve Board would be powerless to carry out a plan of credit control through the determination of the discount rate without having the correlative power to control the open-market operations of the Federal Reserve System.

A recognition of the close relationship between open-market operations and control of the discount rate appears in the following passage from page 52 of the Report of the House Banking and Currency Committee upon the original Federal Reserve Act:

"It will have been observed that the transactions authorized in section 14 (section 13 of present Federal

DECLASSIFIED

Authority Ex Order 12256

- 9 -

L-82

Reserve Act) were entirely of a nature originating with member banks and involving a rediscount operation. It is clearly necessary to extend the permitted transactions of the Federal reserve banks beyond this very narrow scope for two reasons:

1. The desirability of enabling Federal reserve banks to make their rate of discount effective in the general market at those times and under those conditions when rediscounts were slack and when therefore there might have been accumulation of funds in the reserve banks without any motive on the part of member banks to apply for rediscounts or perhaps with a strong motive on their part not to do so.

2. The desirability of opening an outlet through which the funds of Federal reserve banks might be profitably used at times when it was sought to facilitate transactions in foreign exchange or to regulate gold movements."

A striking judicial recognition of the importance of open-market operations as an instrument of credit control and of the close relationship between such operations and the determination of the discount rate is found in the case of Raichle v. Federal Reserve Bank of New York, 34 Fed. (2) 910 (C.C.A. 2nd, 1929). In that case the plaintiff brought suit on August 6, 1928 to enjoin the Federal Reserve Bank of New York from (a) spreading propaganda concerning an alleged money shortage and increasing volume of collateral loans, (b) setting about to restrict the supply of credit available for investment purposes by engaging in open-market transactions through the sale of its securities, (c) raising the rediscount rate for its member banks in order to reduce the volume of security loans, and (d) coercing member banks to call collateral loans by declining to rediscount eligible commercial paper for such member banks.

DECLASSIFIED
 Authority Ex Order 12356

- 10 -

L-82

The United States District Court dismissed the bill for lack of equity and the Circuit Court of Appeals sustained the action of the lower court. Although the decision of the Circuit Court of Appeals was based upon the fact that the Federal Reserve Board, which was not joined in the bill, was an indispensable party defendant, the court also rendered a decision upon the merits of the case. In its opinion, the court emphasized the interdependence of the discount rate and open-market operations in the following language:

"The foregoing provisions enable the Federal Reserve Banks, without waiting for applications from their member banks for loans or rediscounts, to adjust the general credit situation by purchasing and selling in the open market the class of securities that they are permitted to deal in. The power 'to establish from time to time, subject to review and determination of the Federal Reserve Board, rates of discount to be charged by the Federal Reserve Bank,' appears in the act (12 USCA § 357) with the open market powers. The two powers are correlative and enable the Federal Reserve Banks to make their rediscount rates effective."

The court also passed upon the constitutionality of the grant of power to the Federal Reserve System to control the discount rate and open-market operations:

"While it is alleged in the bill that the rediscount rate 'has been arbitrarily and unreasonably raised,' it was for the defendant, subject to the supervision of the Federal Reserve Board, to determine what would be a reasonable rediscount. It is not contended that the provision for fixing rates of discount is unconstitutional, nor would it seem even reasonable to argue that it is, after such decisions as *First National Bank v. Fellows ex rel, Union Trust Co.*, 244 U.S. 416, 37 S. Ct. 734, 61 L. Ed. 1233, L.R.A. 1918C,

DECLASSIFIED

Authority Ex Order 12856

L-82

-11-

283, Ann. Cas. 1918E; 1169, and Westfall v. United States, 274 U.S. 256, 47 S.Ct. 629, 71 L.Ed. 1036 as well as the Legal Tender Cases, 110 U.S. 421, 4 S.Ct. 122, 28 L. Ed. 204, Farmers' and Mechanics' National Bank v. Dearing, 91 U.S. 29, 23 L. Ed. 196, and McCulloch v. Maryland, 4 Wheat, 316, 4 L.Ed. 579."

In discussing whether the Federal Reserve Board was an indispensable party to the litigation, the court said:

"It is specifically empowered to regulate open market transactions, to review and determine rates of discount and to make reports as to conditions in the Federal Reserve System. In such circumstances, the Bank is, as to the matters complained of here, a governmental agency under the direction of the Federal Reserve Board. If the plaintiff prevailed in his contention the Bank would be enjoined from fixing a discount rate which the Board had presumptively directed. Such a situation under familiar principles renders the Federal Reserve Board an indispensable party to the suit. Alcohol Warehouse Corp. v. Canfield, 11 Fed. (2d) 214.

The above opinion contains an accurate analysis of the relationship between the discount rate and open-market operations and establishes clearly that the control of open-market operations falls within the class of Federal Reserve policies which affect the economic life of the entire nation. It is obvious therefore that since the underlying principle of the original Federal Reserve Act was to place the determination of national policies in the Federal Reserve Board, a Government body having a national viewpoint, and that since the control of open-market operations is such a matter of national importance affecting the economic life of the whole nation, this power should be vested in the Federal Reserve Board just as the power to determine the discount rate is vested in the Board.

DECLASSIFIED

Authority *Ex Order 12356*

• 12 •

L-82

Open-market operations of the Federal Reserve System, as they are known today, date from the year 1922. Prior to that time, practically all of the resources of the System had been utilized in supporting the Government's bond issues for the purpose of carrying on the war. This support was given by the Federal Reserve banks by discounting paper secured by Government obligations.

The liquidation of 1920 and 1921 caused a large scale repayment by member banks of their discounted paper and resulted in a sharp decline in the earning assets of the Federal Reserve banks. However, there was in the market a large amount of Government securities and in order to obtain enough earning assets to meet their expenses the Federal Reserve banks began to purchase these securities. Before many weeks had elapsed it was discovered that the purchases of Government obligations by the Federal Reserve banks was having an unforeseen but none the less profound influence upon the volume and cost of credit.

Naturally, most of the purchases were made in New York City which was the principal market for Government securities. It was observed, however, that the sellers of the bonds would deposit the amount paid therefor in New York banks and the banks would put the money to their account at the New York Federal Reserve Bank and would use it to extinguish their indebtedness to such Reserve bank. The payment of the member bank's indebtedness to the Reserve bank naturally resulted in a decrease of the earning assets of such Reserve bank so that the purchase of Government securities by a Federal

DECLASSIFIED
Authority *Ex Order 12956*

- 18 -

Reserve bank in the interior increased the earning assets of such Federal Reserve bank at the expense of the Federal Reserve Bank of New York. It was also observed that these uncoordinated purchases were upsetting the Government bond market and this was, of course, disturbing to the Treasury.

As a result of these observations it was decided at a conference of Governors of the Federal Reserve banks held in May, 1922, that the open-market operations of the Federal Reserve banks should be coordinated and, accordingly, a committee of five Governors was appointed to perform this function.

This committee functioned for about a year and during that time it was clearly observed that purchases of Government securities resulted in decreased discounts and in no increase in the total earning assets of the Federal Reserve banks taken collectively. As a consequence, the Conference of Governors of the Federal Reserve banks decided that "investment policy should give minor consideration to the question of earnings and constant consideration to the effects which open-market operations have upon the condition and the course of the money market and the volume of credit".

Realizing that open-market operations on a System basis would deprive the Federal Reserve Board of the power of effective credit control through the determination of the discount rate, the Board in 1923 recognized the open-market committee which had been formed at the Governors' Conference in 1922 and announced that from that time on open-market operations should be engaged in only with the approval

DECLASSIFIED

Authority *Ex Order 12256*

L-82

- 14 -

of the Board. In 1930 the Board announced that as a result of a meeting attended by representatives of the twelve Federal Reserve banks, the number of members on the committee in charge of open-market operations was increased from 5 to 12 so as to include representatives of all the Reserve banks. By enacting the Banking Act of 1933, Congress, for the first time, gave the open-market committee an official legal status and affirmed the principle that the open-market policies of the System should be subject to the approval of the Federal Reserve Board by the following provision:

"(b) No Federal reserve bank shall engage in open-market operations under section 14 of this Act except in accordance with regulations adopted by the Federal Reserve Board. The Board shall consider, adopt, and transmit to the committee and to the several Federal reserve banks regulations relating to the open-market transactions of such banks and the relations of the Federal Reserve System with foreign central or other foreign banks."

The provision of the above subsection that no Federal Reserve bank shall engage in open-market operations except in accordance with regulations adopted by the Board was rendered ineffective, however, by the enactment of subsection (d) of section 12A which reads as follows:

"(d) If any Federal reserve bank shall decide not to participate in open-market operations recommended and approved as provided in paragraph (b) hereof, it shall file with the chairman of the committee within thirty days a notice of its decision, and transmit a copy thereof to the Federal Reserve Board."

Under the provisions of section 205 of the proposed bill, section 12A of the Federal Reserve Act would be clarified and revised

DECLASSIFIED
Authority Ex Order 13256

- 15 -

L-32

so that open-market policies proposed by a committee representing the Reserve banks, or initiated by the Board after consultation with the committee, would be binding on all Federal Reserve banks.

Representation Of Federal Reserve Banks on
Board Controlling Open-Market Operations

The question has arisen as to whether the final authority over open-market operations of the System should be vested solely in the Federal Reserve Board as provided in the bill which passed the House or whether such authority should be vested in a group composed of members of the Board and representatives of the Federal Reserve banks as proposed in the original bill and as advocated by the American Bankers' Association. It must be realized that such a proposal is in effect the creation of another Board in which would be vested final authority over one of the most important instruments of credit control. This would, of course, result in a diffusion of responsibility and would create the undesirable possibility of a conflict between the group entrusted with control over open-market operations and the Federal Reserve Board which would retain power to determine the discount rate and to establish reserve requirements. Such a conflict might arise where a majority of the members of the Board thought that one course of action should be taken and a majority of the group vested with control of open-market operations thought a different course should be pursued. In such a case, two bodies with power to make final decisions on different phases of

DECLASSIFIED
Authority *Ex Order 12956*

L-82

-16-

the same problem would be working at cross purposes with each other.

That this proposal for representation of private interests upon the Board charged with responsibility for the formulation of national monetary policies is contrary to the underlying principles of the Federal Reserve Act and is a revival of an idea which was rejected by President Wilson and by Congress when the original Act was under consideration is shown by the following.

In his book "An Adventure in Constructive Finance" Senator Glass relates that the bankers made a desperate fight to have inserted in the original Federal Reserve Act a provision giving them the right to have representatives selected or at least nominated by them included in the membership of the Federal Reserve Board. In the following passage from pages 112 to 114 of his book Senator Glass tells how this question arose and also shows that at the outset he was definitely committed to giving the banks representation on the Board:

"It was at this point that the President had us come to the White House for a conference concerning that feature of the bill that gave the banks minority representation on the Federal Reserve Board. I was very definitely committed to giving the banks some voice. Senator Owen, of the Senate committee, had sided with Mr. Bryan in opposition. At the White House conference McAdoo agreed at first with me; but later in the evening he proposed a compromise. The President decided against banking representation. This was one of the crucial questions the President had to determine. It was evident it might involve the failure of legislation by embittering the bankers should they be entirely excluded. If they should be included, Bryan and his following might revolt. I had urged the 'essential injustice and political inexpediency' of denying the banks minority representation. The President was not bothered about the political phase;

DECLASSIFIED

Authority *Ex Order 12956*

L-82

- 17 -

but he was willing to discuss the justice of the thing. So convinced was I that the President was wrong in his conclusion that I sent him this note; which is reproduced here to indicate that the President was not easily persuaded nor the chairman of the committee entirely complaisant:

"At the risk of being regarded pertinacious I am going to ask if you will not consider the advisability of modifying somewhat your view of bank representation on the proposed Federal Reserve Board. The matter has given me much concern, and more than ever I am convinced that it will be a grave mistake to alter so radically the feature of the bill indicated. Last nite, when I came back to my hotel, I found Mr. Bulkley waiting, and he sat with me until past one o'clock this morning. Knowing that he was so earnestly for a government note issue and for government control, I imagined he would be delighted with the suggested alteration. I told him of the change without first indicating my own view; and, much to my astonishment and gratification, he instantly and vigorously protested, saying he had regarded the extent to which we had already put the government in control, together with the tremendous power of the Board, as the real weakness of the bill. He also said we could not escape the charge of exposing the banking business of the country to political control. As indicated to you last night, Mr. Bulkley is a strong man of the committee with whom we must reckon; hence his view of this proposed alteration fully confirms my belief that it would prove an almost irretrievable mistake to leave the banks without representation on the central board. You will note that the bill requires the three members selected by the banks to sever all bank connections before qualifying. Might it not be well at least to take Mr. McAdoo's suggestion and have the President select these men from a list proposed by the banks? With high esteem, etc.'."

Immediately following the quotation of his letter to President Wilson, Senator Glass goes on to state that he soon was won over to the President's view of the matter. The manner in which the proposal for banker representation on the Federal Reserve Board was defeated by President Wilson and the conclusive reasons for his position are

DECLASSIFIED

Authority *Ex Order 12956*

L-82

- 18 -

shown in the following passage from pages 115 and 116 of Senator Glass' book:

"The President was adamant; and, if there was ever a lapse, I soon was to revive the conviction that Mr. Wilson knew more about these matters than I did. As anticipated, when the bill was introduced in Congress, bankers raised an uproar about this provision. With scarcely suppressed satisfaction, I headed a delegation of them to the White House to convince the President he was wrong. Forgan and Wade, Sol Wexler and Perrin, Howe and other members of the Currency Commission of the American Bankers Association constituted the party. The first two, peremptory and arbitrary, used to having their own way, did not mince matters. They evidently were not awed by 'titled consequence', for they spoke with force and even bitterness. Sol Wexler and Perrin were suave and conciliatory. The President was courteous and contained. These great bankers, arbiters for years of the country's credits, were grouped about the President's desk in the Executive office adjoining the Cabinet room. I sat outside the circle, having already voiced my own dissent from the President's attitude. President Wilson faced the group across the desk; and as those men drove home what seemed to me good reason after good reason for banker representation on the central board, I actually experienced a sense of regret that I had a part in subjecting Mr. Wilson to such an ordeal. When they had ended their arguments Mr. Wilson, turning more particularly to Forgan and Wade, said quietly: 'Will one of you gentlemen tell me in what civilized country of the earth there are important government boards of control on which private interests are represented?' There was painful silence for the longest single moment I ever spent; and before it was broken Mr. Wilson further inquired: 'Which of you gentlemen thinks the railroads should select members of the Interstate Commerce Commission?' There could be no convincing reply to either question, so the discussion turned to other points of the currency bill; and, notwithstanding a desperate effort was made in the Senate to give the banks minority representation on the reserve board, the proposition did not prevail."

President Wilson again confirmed this position in his message to the joint session of Congress on January 23, 1913, in the following language:

DECLASSIFIED
 Authority Ex Order 12956

L-82

- 19 -

"The control of the system of banking and of issue which our new laws are to set up must be public, not private; must be vested in the Government itself, so that the banks may be the instruments, not the matters, of business and of individual enterprise and initiative."

That the stand taken by President Wilson against representation of private interests on the Federal Reserve Board was adopted by Congress is shown by the following passage from page 20 of the Statement of Views, accompanying the Senate Report on the original Federal Reserve Act (Report 133, Part 2):

"Many of the big banks quite urgently insisted that the bankers should have representation upon the Federal reserve board. This was denied for the obvious reason that the function of the Federal reserve board in supervising the banking system is a governmental function in which private persons or private interests have no right to representation except through the Government itself. The precedents of all civilized governments is against such a contention."

The present proposal to vest control over open-market operations in a joint board consisting of members of the Federal Reserve Board and representatives of the Federal Reserve banks selected by directors, two-thirds of whom are elected by the member banks, is merely an effort to revive the principle urged by Bankers Forgan, Wade, Wexler, Perrin, Howe, and others, which was vigorously and convincingly denied and defeated by President Wilson.

Guiding Principle to be Followed by Federal Reserve Board in Determining Open-Market Policies

The Banking Act of 1935 as originally introduced was criticized on the ground that the Federal Reserve Board was given an unlimited discretion as to the purposes of the open-market operations of the System.

DECLASSIFIED
Authority EX Order 12956

-20-

L-82

However, this criticism was eliminated in the House of Representatives by inserting in section 204(b) of the bill the following statement of objective:

"It shall be the duty of the Federal Reserve Board to exercise such powers as it possesses in such manner as to promote conditions conducive to business stability and to mitigate by its influence unstabilizing fluctuations in the general level of production, trade, prices, and employment, so far as may be possible within the scope of monetary action and credit administration."

That such a mandate is in harmony of the purposes of the original Federal Reserve Act is shown by the following quotation from page 7 of the Statement of Views accompanying the report of the Senate Committee on Banking and Currency (Report 133, part 2):

"The chief purposes of the banking and currency bill is to give stability to the commerce and industry of the United States, prevent financial panics or financial stringencies; make available effective commercial credit for individuals engaged in manufacturing, in commerce, in finance, and in business to the extent of their just deserts; put an end to the pyramiding of the bank reserves of the country and the use of such reserves for gambling purposes on the stock exchange."

FEDERAL RESERVE BANK OF CHICAGO 333.3-a

230 SOUTH LASALLE STREET

OFFICE OF THE GOVERNOR

May 4, 1935.

Honorable M. S. Eccles, Governor,
Federal Reserve Board,
Washington, D. C.

My dear Governor:

Carded

At a recent meeting of the directors of this bank discussion of our participation in the System Investment Account and the holdings in our own portfolio developed the opinion that steps should be taken to adjust our holdings of Government securities in the System account to the proper percentage and for reasons, in part, outlined as follows:

From January 3, 1934, to February 6, 1935, there has been an increase in the gold stock of \$1,515,000,000 and the net addition to excess reserves during that period was \$1,342,000,000. Since February 6, 1935, gold imports have continued in large volume and the monetary gold stock increased to \$8,721,000,000. There have been no additional purchases of Government securities for the System account during 1934 or in 1935 and the excess reserves of member banks have increased to \$2,272,000,000, caused principally by imports of gold and also by increases by the Treasury in expenditures of free gold and in silver currency. It was formerly the custom to offset imports of gold by the sale of Government securities from the System account, but no offsetting sales have been made during the period above mentioned.

The tremendous amount of excess bank reserves has so affected open market money rates that the return on Treasury bills has largely disappeared. This highly artificial money market is not considered a sound basis upon which to conduct Treasury financing or commercial borrowing and it would seem advisable to at least partly correct this unnatural situation, particularly on the shorter maturities. It is therefore suggested that maturing Treasury bills held in the System account, and in our own portfolio, be permitted to run off until the rate for nine-months maturities is at least 1/2 of 1%.

5/25/35

FEDERAL RESERVE BANK OF CHICAGO

-2-

Hon. M. Eccles, Governor,
Federal Reserve Board,
Washington, D. C.

As of April 17, the total amount of Treasury bills held in the System account was approximately \$530,000,000, and the maturities are about \$20,000,000 weekly.

The question of reducing the System's holdings of Government securities has been discussed from time to time in the past, but objections have always been raised because of the fear that a reduction in the System holdings would cause banks to sell their Government securities and thus injure the Government market. It is suggested that any unfavorable reaction could be avoided if a public statement were made that the Federal Reserve banks were not selling securities but on account of the strong demand from the market were allowing Treasury bills to mature, as it was not their policy to compete with their member banks for securities of the shorter maturities. If the market was unduly affected, the policy could be promptly reversed.

It would appear that there could be no more opportune time than the present to thus reduce at least the holdings in the System account because of the abnormally low rates and the strong demand for not only Treasury bills but all maturities up to five years, and also for the further reason that the large excess reserves now carried by practically all member banks would promptly absorb any reduction in the System account. By a reduction in the portfolio of the Federal Reserve System the Federal Reserve banks would then be in a stronger position to assist the Treasury later on should such help be necessary.

If it be the duty of the System to furnish credit to the market when there is a scarcity thereof, it would seem equally its responsibility to withdraw credit where there is such a substantial excess.

The argument at times has been advanced that the System should not reduce its present investment in Government securities but be prepared to sell only for the purpose of checking inflation. Past experience has not shown this method as being successful as the sale of United States Government securities does not affect the price of stocks and real estate. Heavy sales of Government securities for the purpose of checking inflation would only result in heavy losses to the present holders of these securities and would undoubtedly greatly injure the Government's credit.

In any event, whether the total holdings of the System be reduced or retained, it is our opinion that the holdings in

FEDERAL RESERVE BANK OF CHICAGO

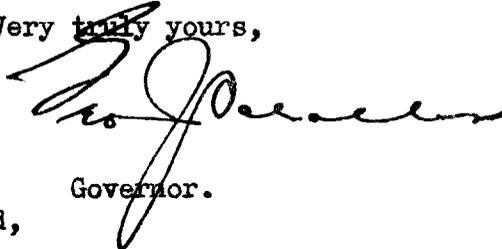
-3-

Hon. S. Bales, Governor,
Federal Reserve Board,
Washington, D. C.

the System should be adjusted pro rata to the agreed percentage among the several Federal Reserve banks and we request the co-operation of the Federal Reserve Board to this end.

The foregoing is submitted for the consideration of the Federal Reserve Board, and we in turn shall be pleased to have your views.

Very truly yours,

A handwritten signature in cursive script, appearing to read "S. Bales", written over the typed name "Governor".

cc-Hon. M. S. Szymczak,
Member, Federal Reserve Board,
Washington, D. C.

Governor.

Form No. 131

Office Correspondence

FEDERAL RESERVE BOARD

Date April 27, 1935

To Governor Eccles

Subject: 333.3-a

From Mr. Goldenweiser *GG*

3/21/35 *Carded*

GPO 16-852

W.S.

I return herewith the memorandum on "Excess Reserves and Federal Reserve Policy" prepared by the officers of the New York bank for the use of the directors of that bank. Mr. Currie and Mr. Thomas have both read it and have expressed themselves as in agreement with its conclusions. I am also in agreement with the conclusion that Federal Reserve policy should be guided by economic developments and money market conditions and should not be primarily responsive to requirements of the Treasury.

FOR CIRCULATION

- Gov. _____
- Mr. Hamlin _____
- Mr. Miller _____
- Mr. James _____
- Mr. Thomas _____
- Mr. Szymczak _____
- Mr. _____
- Mr. _____

I can see nothing that can be gained by having a flexible portfolio of open-market securities. If flexibility simply means that the amount can be changed for trivial or purely fiscal reasons, I

Please note --- ~~check~~ believe that it is a desirable thing that it should be generally understood that changes in the open-market portfolio always represent a definite policy decision by the Federal Reserve System.

I agree that there is no occasion at the present time to sell Government securities. It is clear that the existing volume of excess reserves is neither accomplishing the purpose for which it was created, nor causing any undesirable developments. It is best to keep the portfolio intact to be diminished or increased in the light of future developments.

see memo 4/24/35

333, J-a

April 25, 1935

Governor George L. Harrison
Federal Reserve Bank
New York City

Dear Governor Harrison:

I thank you for your letter of April 20
and the enclosed copy of a memorandum on excess
reserves and Federal Reserve policy, prepared by
the officers of your bank. / 3-21-35.

I am very glad to have this memorandum and
shall present it to the Board for its information
and consideration. I have read the statement with
interest and find myself in general agreement with
the analysis of the situation which it presents.

Very truly yours,

M. S. Eccles,
Governor

HAG DE



FILE COPY

Form No. 131

Office Correspondence

FEDERAL RESERVE BOARD

*Mr. Currie ✓
Mr. Thomas ✓*

Date April 24, 1935

333.3-a

To Dr. Goldenweiser

Subject: _____

From Governor Eccles

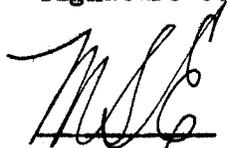
see note 4-22-35

8/21/35

I wish you would look over the attached letter which I received from Mr. George Harrison, together with the confidential memorandum regarding excess reserves and the Federal Reserve policy. You might also have Mr. Currie and Mr. Thomas go over the matter.

After all three of you have considered it, I would like to have a memorandum covering your views on the subject in case you do not entirely agree with the memorandum. It is my view that the attached memorandum, together with your comments, should be referred to the Board members for their consideration.

I would also like to have you draft a letter of reply for my signature to Governor Harrison.



see memo 4/27/35

I think this an excellent memorandum & I agree with its conclusion

ABC

333.3-a

4/22/35
file date

5-10-35

The letter from Governor
Harrison is being held in
Governor Eccles' office.

W

This particular letter dated around
April 22, 1935 enclosed copy
of memorandum on "Excess
Reserves and Federal Reserve Policy".
This memorandum filed under
date of 3/21/35
/pok

333.3-a

FEDERAL RESERVE BANK
OF NEW YORK

April 20, 1935.

Dear Governor Eccles:

Mr. Burgess, secretary of the Federal Open Market Committee, is transmitting to you, ^{see 4-20-35 filed 333.3-a-1} in the usual course, a copy of the minutes of the meeting of the executive committee held in Washington on Wednesday, April 17. As you will notice those minutes are accompanied by a copy of a confidential memorandum, dated March 21, 1935, discussing excess reserves and Federal Reserve policy.

For your convenience in reference, I am enclosing an extra copy of this memorandum, which is the document about which I spoke to you in Washington on Wednesday morning prior to the meeting. It was prepared by the officers of this bank at the request of our directors, following many discussions by our directors over a period of months concerning credit and banking developments and the responsibilities of the Federal Reserve System in the light of those developments. The memorandum which I enclose was approved unanimously by my directors on March 21 as representative of their views at that time, in the light of the situation as they then viewed it. It was not sent to you at the time only because the conclusion, so far as any action by this bank was concerned, was a negative one.

In view of the fact, however, that subsequently the Secretary of the Treasury informally raised some question as to

FEDERAL RESERVE BANK OF NEW YORK

2

Governor Eccles

/20/35

the wisdom of a reduction in the System's portfolio of government securities, the question of possible sales of such securities from the System account was again raised for discussion at the meeting of the executive committee on Wednesday, April 17. In the course of that discussion, and at my request, the memorandum was read to the committee because of its bearing on the subject matter before the committee, and as an indication of how this bank felt at the time it was adopted and in the circumstances then existing. It does not, of course, represent any fixed conclusion by our board of directors in the event of new developments or any change in the conditions as we observed them at the time the memorandum was finally approved. It occurred to me, however, that you and the Board, as well as the other members of the Federal Open Market Committee, might be interested in the memorandum as an expression of our views as to the character and extent of the responsibilities of the Federal Reserve banks in the rather unique circumstances with which we are now confronted.

I am writing this letter to you only that you might fully understand the genesis of the memorandum and the purpose of its preparation. The subject matter is obviously one which requires continuous and thoughtful study by all of us in the Reserve System who are responsible for the formulation and execution of Federal Reserve policies.

Faithfully yours,


George L. Harrison,
Governor.

Hon. M. S. Eccles,
Governor, Federal Reserve Board,
Washington, D. C.

Enc.

OF FR
DECLASSIFIED

April 19, 1935

Mr. Vest

Woodlief Thomas

RECEIVED BY...
APR 21 1935
333.3-a

Attached is a memorandum on open-market policy. I talked with Mr. Goldenweiser about it and the last sentence in the next to last paragraph was inserted at his request.

He also told me that the whole question is discussed rather fully in his testimony before the House Committee. He did not give, however, the specific dates requested by Mr. Sparkman.

DEVELOPMENT OF COORDINATED SYSTEM POLICY IN OPEN-MARKET OPERATIONS OF FEDERAL RESERVE BANKS

Prior to 1922 the Reserve banks, having the power to invest money, made considerable investments in the market buying bills and buying Government securities. The holdings of United States Government securities by Federal Reserve banks gradually increased in the early years of the System to about \$300,000,000 in 1920, and were slightly smaller in 1921. Purchases and sales of bankers' acceptances were made largely in accordance with seasonal changes in the supply of acceptances and in the demand for funds.

In 1922, Federal Reserve banks, facing a decline in earning assets because of repayments of discounts by member banks, began to buy Government securities for the purpose of increasing their earnings. It was observed that the operations of Federal Reserve banks, acting independently, were affecting the market for Government securities and that these operations conflicted with each other and with those of the banks as fiscal agents of the Treasury.

In May 1922, at a meeting of the Governors of the Federal Reserve banks, a committee was appointed to coordinate the buying and selling of Government securities so as to have a more orderly program under central control.

In October 1922, this Committee undertook to make recommendations to the Federal Reserve banks regarding the purchases and sales of Government securities. It was observed in this year that purchases of

Government securities did not cause an increase in the earning assets of the Federal Reserve banks, nor did sales cause a decrease, but rather that they affected the volume of borrowings at member banks. As a consequence, the Conference of Governors of the Federal Reserve banks voted that "investment policy should give minor consideration to the question of earnings and constant consideration to the effects which open-market operations have upon the condition and the course of the money market and the volume of credit."

On April 7, 1923, the Board advised the Governors of the Federal Reserve banks formally of a resolution adopted by the Federal Reserve Board on March 22, 1923, with respect to open-market operations by Federal Reserve banks, pointing out the necessity of the coordination of open-market operations of the Federal Reserve banks with their discount operations and their general credit policy. It also announced the organization of the "Open Market Investment Committee" for the Federal Reserve System. This committee consisted of five representatives of the Reserve banks and was to be under the general supervision of the Federal Reserve Board. From this time open-market operations could not be engaged in by Federal Reserve banks except with approval of the Federal Reserve Board.

In March 1930, the "Open Market Policy Conference," consisting of representatives of all the Reserve banks, replaced the "Open Market Investment Committee." Under the Banking Act of 1933 the "Federal Open Market Committee," consisting of twelve Reserve bank Governors, was established.

- - - - -

DECLASSIFIED
 Authority *Ex Order 12956*

Confidential

333.3-a

3/21/35

EXCESS RESERVES AND FEDERAL RESERVE POLICY

Carded

In discussing excess reserves at the last meeting, the directors asked this question: What is the duty of a central bank or banking system in a situation like the present? Can we by analysis of the situation ascertain the principles which should be applied? Having done that, we would be in a better position to consider questions of expediency and methods of procedure.

Before attempting to answer this question, it may be well to review briefly the genesis and growth of the present excess reserves of the member banks of the country. The program of open market purchases of government securities, which began at the outset of the depression in 1929, has gone through a number of phases. In the earlier years its main purpose was to enable the member banks to reduce their rediscounts at the Reserve banks, in the hope, based on previous experience, that this reduction of member bank indebtedness would check deflation and might stimulate credit expansion. The creation of excess reserves, which represented an entirely new phase of open market policy, may be said to have begun after the passage of the Glass-Steagall Act in February, 1932. By the summer of 1932 our open market purchases had led to the accumulation of fairly substantial excess reserves, principally in New York and Chicago banks. The next phase of the program was the resumption of open market purchases after the banking crisis of March, 1933, as one of various emergency measures, which included also deposit insurance and the Reconstruction Finance Corporation program of bank capital rehabilitation. By January, 1934, excess reserves amounted to about \$800,000,000, which were now fairly well distributed throughout the country. It is important to point out that the Reserve System's active program of increasing bank reserves came to an end at this time,* and that the great increase in excess reserves which has occurred since

* Our purchases of government securities actually ceased in November, 1933, but the full effect upon excess reserves was not apparent until after seasonal return flow of currency to the Reserve banks in January, 1934.

125

DECLASSIFIED
Authority *Ex Order 12956*

2

January, 1934, has been due mainly to the devaluation policy of the Administration and the resulting inflow of gold. Our first conclusion therefore is that the Administration's policy and not the Reserve System has been responsible for the recent growth and the present large amount of excess reserves, and that as matters now stand both the responsibility for and the power over present excess reserves lie principally with the Administration. 10

Nevertheless, we must ask ourselves: What is our duty within the limits of our power? We are faced with this situation: Excess reserves are now about \$2,250,000,000; the public debt is steadily mounting; the government securities issued to finance the deficits are being bought mainly by the banks, and largely by reason of the pressure of excess reserves upon the banks. The theory of creating excess reserves was that in a depression, when the capacity and willingness of banks to lend and of private enterprise to borrow have been impaired, excess reserves would put pressure on the banks thus forcing down the yield on government securities to the point where bank and other investment funds would flow over into private capital investment. There is some evidence that this pressure has begun to work; the yield on government securities has been reduced; there are signs that mortgage money is becoming more plentiful; and there are some signs that the long-awaited movement toward refunding of outstanding private capital issues is getting under way. But there will be no proof that the process has succeeded until these signs are followed by the appearance of new corporate issues which will serve to relieve present pressure on the Treasury directly, or through other governmental agencies, to satisfy the country's current capital requirements.

Meanwhile, there are certain definite obstacles and dangers. The opening of the private capital market appears to be blocked by obstacles mechanical, psychological, and economic and bank funds continue to flow almost exclusively into government securities. There is thus a grave danger that so long as the avenues 200

DECLASSIFIED
Authority *Ex Order 12956*

3

1c

into private capital investment remain blocked and so long as the pressure of excess reserves is exerted not against a fixed total of government debt but against a continuously expanding volume of such debt, the overflow of bank funds into private channels may not occur, the banks will become more and more heavily loaded with government securities, the government will do a larger and larger part of the nation's borrowing and spending. If this process should continue, should we not expect on the basis of the experience of other nations that eventually a point will be reached where the banks will be unable or unwilling to absorb the government debt, so that the government will find itself forced either to expend its stabilization fund, still further increasing excess reserves, or to request the Reserve banks to purchase more government securities in the open market, or to borrow directly from the Reserve banks, or to issue some form of inconvertible paper money? With some 10,000,000 workers still unemployed, some 22,000,000 of the population on relief rolls, the capital goods industries still in a state of severe depression, with government deficits mounting at a rate of perhaps \$3,500,000,000 a year, and with the private capital market still practically dormant after five years of depression, no one can say with certainty that this is not a likely prospect. In the experience of other nations a long-continued process of governmental deficit financing through the banking system has always led at some point to rapidly rising prices, either through actual monetary expansion or through fear of potential expansion, and at this point the process has always become cumulatively uncontrollable, government deficits rising by reason of the rise of prices and the lag of revenue behind expenditures, the whole process being attended by grave economic and political disruption and disorder terminating in collapse.

This is indeed a black picture, and we have to face it as one of the major possibilities of our present situation. It has often been said that the signs of an approaching inflation are always ignored or minimized until it is too late to take decisive action. What then is the duty of a central bank or banking system,

3rd

DECLASSIFIED
Authority EX Order 12956

4

charged with some responsibility for monetary control in the public interest? As a first approach to this question, it is natural to ask ourselves whether there is not some orthodox answer which can be drawn from the accepted theory and the historical experience of central banking. If there were such an answer, it might greatly lessen the difficulty, at least of deciding what we ought to do, even if it did not dispose of the questions of expediency. Unfortunately, there appears to be no such answer. Modern central banking is too young and has developed under circumstances too rapidly changing and abnormal to provide us with any clear and sure light to guide our steps in times like these. Before the war, for example, perhaps the only clear and generally accepted rule of central banking was that the discount rate should be raised upon the occasion of gold outflow; and yet it now seems, as we review that period in retrospect, that when we applied this rule, when England went off gold in September, 1931, and gold began to leave the United States in huge amounts, the rate increase probably served more to add to the deflationary movement of succeeding months than to check the gold outflow. As to a proper central banking policy with respect to excess reserves, the historical record tells us nothing. But it may have been regarded as orthodox, or at least prudent, in January, 1933, when excess reserves were about \$600,000,000, to sell securities in order to prevent any further increase of excess reserves, even though as events proved we were on the eve of the banking crisis, which was to force us into renewed open market purchases. These decisions, for which the Reserve System has been criticized, do not of course throw any light on our present problem, but they do show perhaps that in such extraordinary times as these, there are no such clear and definite rules of procedure for central banks as the term orthodoxy may imply.

It might, nevertheless, seem worth while to attempt to derive an answer to our present problem from the previous experiences and practices of foreign central banks which have been faced with the duty of controlling an inflation.

DECLASSIFIED
Authority *Ex Order 19256*

5

But our problem is quite different from theirs. Inflation abroad was accompanied 10
by a high degree of business activity and usually also by direct government borrowing from central banks. Under such circumstances it is not difficult to decide what a central bank ought to do. The Federal Reserve System has the much more difficult problem of endeavoring to foresee when and how these conditions may arise. Our dilemma is that if we take action now based upon the assumption that they will arise, our action may be premature and may choke off an incipient recovery such as our present policy is designed to facilitate. We have also to bear in mind that the present extraordinary governmental expenditures are of quite different character from those which have in previous cases been the sources of uncontrollable inflation, such as war time expenditures, or the German reparation payments, or the French reconstruction of invaded territory. All these expenditures were of a compelling nature from which there was no escape but which necessarily became greater as the inflation proceeded; our extraordinary expenditures are a phenomenon of depression. While there is of course no certainty, there is at least a fair possibility that if and when we achieve recovery, extraordinary expenditures will be reduced through the re-employment of the factors of production. Moreover, we are faced with the fact that in a period of depression, as contrasted with a period of boom, some expansion of credit is essential and it is the duty of a central bank or banking system to do what it can to facilitate that expansion. We must not allow our very natural fears as to how we are to control this expansion in the future to obscure our realization that in some form and to some extent it is not only inevitable but desirable, if we are to have any real recovery. It thus becomes a nice question, if credit expansion does not, as promptly as we desire, take the form we wish it to take, namely an expansion of the private use of credit, at what point and on what grounds we are justified in taking measures which might interfere with its taking the form of a public use of credit.

5 m

DECLASSIFIED
Authority EX Order 12956

6

The question of policy must therefore turn in the final analysis upon a carefully considered view of the existing economic situation and its prospects. It becomes a question of weighing the dangers inherent in our present course against the possibility of a successful outcome. Reviewing the events of the past two years, we do not find the picture wholly black. A certain amount of progress has been made. For the world as a whole, the depression reached its bottom in the summer of 1932, and even for this country the banking crisis in early 1933 did not push production any lower than it had been the preceding summer. Since March, 1933, we have pursued a highly erratic course of ups and downs, but each succeeding recession has been somewhat less than the preceding. Since last summer the course of business has been upward. 10

Perhaps the greatest single change in the last two years has been the improvement in the economic position of agriculture. Agricultural prices have risen markedly, and the 1909-13 relation of agricultural prices to industrial prices, which appeared during the first year of this Administration to be the principal goal of policy, has been achieved. Though some of the means employed have been artificial and there is no certainty of the continuance of this balance of agricultural and industrial prices, we have reason to feel that its achievement may have introduced a new element of political stability and to some extent have freed the hands of the Administration to deal with the industrial problem.

Another major change has a bearing on the outlook for the capital goods industries, which are the real seat of the depression. It is becoming apparent that the long lapse of time is taking its toll increasingly of equipment in use through the process of wearout and obsolescence, even though many obstacles remain to be removed. Reports for recent months from the machine tool industry, often an important forerunner of industrial recovery, indicate the most active year since 1930. Both the railroads and the utilities appear to have reached the point of 6w

DECLASSIFIED
Authority *EX Order 12256*

7

being in need of equipment if their political or financial difficulties can be resolved. There are scattered evidences of a changing situation in real estate. In various parts of the country pressure for rent reductions has relaxed, families which had doubled up are seeking separate housing, vacancies have lessened. 10

On the whole, and recognizing frankly the extreme difficulty of analyzing so tangled a situation as this, we feel that we would do better, in the absence of any important change in the situation, to continue upon our present course of maintaining existing aggregate holdings of government securities rather than to take the alternative course, which carries with it the implication of a definite judgment that our present policy cannot succeed. We ought, however, to recognize that in order to succeed our policy, with respect to excess reserves, should be part of a broader monetary policy, which in our view should be on some such lines as the following:

1. The continuance of our present open market position.
2. The removal of mechanical obstacles to the opening of the private capital market, such as the prohibition of underwriting by banks and the undue severities of the Securities Act.
3. The encouragement of all sound steps which will increase the availability and reduce the cost of mortgage money.
4. The revival of confidence, which alone will free private capital, by steps looking toward (a) international monetary stabilization, and (b) a budget policy aimed not at an immediate balance but at some fairly definite schedule for tapering off extraordinary expenditures.

If this program could be adopted, we are satisfied that it would go far toward hastening a general economic recovery. There would, of course, remain much to be done. It is probable that in the sphere of the National Recovery Administration many helpful changes are now going on underneath the surface; but in the field of building construction there is a difficult problem of cost-price adjustments, in the field of railroads there appears to be much need for financial reconstruction as the necessary preliminary to railroad buying of equipment, and in 7-10

DECLASSIFIED
Authority *Ex Order 12250*

8

the public utilities there is clearly need for some clarification of the present conflict which, while removing previous malpractices wherever they may be found, would make it possible for this industry, and for investors in it, to contribute their very important share to the national spending. 10

This memorandum has been addressed mainly to the question of what the Federal Reserve System, as a central banking system, ought to do in the present situation, and a program of action has been suggested. What is the alternative to such a program? If, for example, we should decide that we ought to reverse our present course and reduce our holdings of government securities, what prospect is there that our reversal of policy would accomplish our purpose, or that the reversal might not of itself become destructive? Through its stabilization fund the government could exercise a dominant influence over member bank reserves. It could also resort, if it chose, to paper money inflation. Moreover, with the whole question of central banking now very much in the air, the government could readily alter fundamentally the entire central banking, and also the commercial banking, machinery of the country. It seems clear that we could act effectively only with the consent and cooperation of the Administration. And there is the further question whether the Administration, even if we should propose and it should consent to such a reversal of policy, would be well advised to do so. If as a result there were any marked decline in government securities or commodity prices or production, the Administration would probably have to face renewed agitation either for inflation through greenbacks, further devaluation, more silver certificates, and the like, or for increased governmental intervention in the regimentation or management of industry. Perhaps at the moment these dangers appear to be less imminent than a year ago, but that fact does not lessen the danger that a reversal of our policy would strengthen the hands of one or the other of these groups who do not think as we do, and might well result in serious and damaging losses to the banking system. JW

DECLASSIFIED
Authority EX Order 12256

12

A second question requiring careful consideration would be as to the time and the nature of our action. If we should decide upon a reversal of our policy, we ought to choose our ground carefully so that our motives could be easily understood and, in so far as is practicable, publicly justified. The action should be taken at a time and in a manner which would indicate as clearly as possible that the dangers of the present course are becoming greater, while the prospects for a favorable outcome have been lessened. It would seem much more justifiable under present conditions to refuse a request to buy more government securities than to begin a policy of selling. Still more clearly, if the government should at some future stage endeavor to borrow directly from the Reserve banks, there might then be every reason for resisting. Without waiting for either of these events, if we could be sure that the present situation can have no other outcome than a destructive inflation, it might then be our duty to reverse our policy. But is it possible to be sure of this at the present time, when there is yet no actual evidence of inflation but on the contrary a general agreement that we need more activity both of credit and of business? A reversal of our policy at the present time would appear to rest upon more certainty of the future dangers in our situation than is yet warranted and to under-emphasize its more constructive and encouraging aspects.

* * * * *

Assuming, therefore, that it is the carefully considered view of this Board, on the basis of its analysis of the situation as set forth in this memorandum, that the Federal Reserve System ought not, at present, to make any major change in its credit policy, we may ask ourselves whether there is any lesser, intermediate action which should be taken with respect to its government security account. In our recent discussions, it has been frequently pointed out that it is desirable to introduce some measure of flexibility into this security account. In

920

DECLASSIFIED
Authority Ek Order 12956

10

10

a large complex money market which is subject to many influences of a seasonal or transitory nature, there is inevitably a certain amount of variation in the magnitude of reserves. Similarly, there may be fairly wide short-time variations in the condition of the government security market and this market, in circumstances like the present, is a dominant feature of the money market. It is generally agreed that one important function of a central bank or banking system is to smooth out such seasonal or accidental variations affecting the money market, at least so far as they threaten to assume disturbing proportions; and to this end it ought to be free to act even though such action involves changes in the amount or character of its government security holdings. To maintain a completely rigid open market position not only lessens the power of the Federal Reserve System to smooth out minor irregularities in the market but causes the public to attach an undue importance to the size of its security account, and to small changes in the account when they do occur.

Owing to the present great size of excess reserves and the extraordinary ease of the money market, there has been less occasion than in normal times for smoothing out seasonal irregularities or for making changes in the System security portfolio which were not connected with major policy. At the same time, by reason of the unprecedented magnitude of the excess reserves, which has been a factor in the high prices of government securities, and in the large purchases of such securities by the banks, bankers and the general public are more than ordinarily alert and sensitive to every circumstance which might affect the market for government securities. We must, therefore, recognize that there is much more danger than would ordinarily be the case that even minor variations in the System's security account might set in motion forces of an importance not intended and very difficult to control. A diminution in our portfolio, after so long a period of inactivity, might at the present time precipitate a serious selling movement among the banks,

1025

DECLASSIFIED
Authority EX Order 12956

11

10

which quite apart from its effect upon the price of government securities and the government's fiscal policy, would defeat the very purposes which the policy of excess reserves has sought to accomplish. It therefore seems that flexibility, desirable as it would be under more normal conditions, for the time being, should give way to larger considerations. When the time does come to reverse our policy, our present holdings of government securities will probably be inadequate (apart from changes in reserve requirements) for the task of controlling the enormous potential expansion of credit which present excess reserves make possible, and we shall need to rely, so far as we can, upon the psychological effects of our action. The very conspicuousness of our present rigid position may then become a powerful aid in emphasizing to the public the significance of a reversal of our policy.

3/21/35.

11w

DECLASSIFIED
 Authority *EX Order 12256*

10

FACTORS OF INCREASE IN MEMBER BANK RESERVES

(Millions of dollars)

Feb. 24, 1932
to
Aug. 10, 1932

Sources of additional reserve funds:

U. S. Securities purchased by Federal reserve banks	1,110
Decrease in reserve requirements	36
All other	<u>30</u>
Total	1,176

Uses of reserve funds:

Decrease in gold stock	345
To retire discounts at Federal reserve banks	383
To retire bills held by Federal reserve banks	94
Demand for currency	115
To meet Treasury withdrawals	<u>19</u>
Total	956

Net addition to excess reserves 220

1225

DECLASSIFIED
 Authority *Ex Order 12956*

10

FACTORS OF INCREASE IN MEMBER BANK RESERVES

(Millions of dollars)

Aug. 10, 1932
to
Jan. 3, 1934

Sources of additional reserve funds:

U. S. Securities purchased by Federal reserve banks	581
Increase in gold stock	318
Bills purchased by Federal reserve banks	82
Increase in Treasury currency outstanding	<u>239</u>
Total	1,220

Uses of reserve funds:

To retire discounts at Federal reserve banks	346
To meet Treasury withdrawals	46
To meet increased reserve requirements	61
Demand for currency	84
All other	<u>96</u>
Total	633

Net addition to excess reserves 587

1300

DECLASSIFIED
 Authority *Ex Order 12356*

10

FACTORS OF INCREASE IN MEMBER BANK RESERVES

(Millions of dollars)

Aug. 10, 1932
 to
Jan. 3, 1934

Sources of additional reserve funds:

U. S. Securities purchased by Federal reserve banks	581
Increase in gold stock	318
Bills purchased by Federal reserve banks	82
Increase in Treasury currency outstanding	<u>239</u>
Total	1,220

Uses of reserve funds:

To retire discounts at Federal reserve banks	346
To meet Treasury withdrawals	46
To meet increased reserve requirements	61
Demand for currency	84
All other	<u>96</u>
Total	633

Net addition to excess reserves 587

13 Jan.

DECLASSIFIED
 Authority *Ex Order 12356*

FACTORS OF INCREASE IN MEMBER BANK RESERVES

(Millions of dollars)

Jan. 3, 1934
 to
Mar. 6, 1935

Sources of additional reserve funds:

Increase in gold stock	1,515
Return flow of currency	34
Expenditure of Treasury free gold and increase in silver currency	520
Total	2,069

Uses of reserve funds:

To retire discounts at Federal reserve banks	100
To retire bills held by Federal reserve banks	115
To meet increased reserve requirements	503
All other	9
Total	727

Net addition to excess reserves 1,342

14-25

DECLASSIFIED
 Authority *Ex Order 12956*

Fed. R. S. Inv. Acct

February 19, 1935

Mr. Goldenweiser

Miss Barr

Holdings of U.S. Government securities
 of Federal Reserve special investment
 account, February

RECORDS IN FILES SECTION
 AUG 31 1949
335.3-a

There have been no recent marked changes in the holdings of U. S. Government securities of the Federal Reserve special investment account which have maturities of one year or over. As compared with a year ago the holdings with maturities of one year or more show an increase of \$255 millions.

Maturities within six months include in addition to Treasury bills \$74 millions ^{of Treasury notes} maturing March 15, \$85 millions of 4th Liberties called for April 15, \$130 millions of Treasury notes maturing on June 15, \$86 millions of Treasury notes maturing on August 15.

The following table shows the holdings by maturities.

HOLDINGS OF U. S. GOVERNMENT SECURITIES OF FEDERAL RESERVE
 SPECIAL INVESTMENT ACCOUNT, FEB. 13, 1935
 (In millions of dollars)

	Feb. 13 1935	Change from			
		Week ago	Month ago (Jan. 16 week)	2 months ago (Dec. 19 week)	Year ago
Total	2,223	+1	0	- 2	- 2
By Maturities:					
Within 15 days	36	+1	+7	- 7	-36
16--30 days	39	-1	-6	+ 8	-147
31--60 days	155	-3	+76	+99	+2
61--90 days	163	+4	-4	+64	-130
3--6 months	466	+7	+6	+49	+149
6 months -- 1 year	92	-7	-61	-217	-105
1--5 years	1094	0	+2	+2	+166
Over 5 years	178	0	0	0	+99

During the three weeks Jan 10 - 31, there were some sales and purchases of Treas. notes with maturities in excess of ~~the~~ a year, without much effect on the aggregate holdings.

File

333.3-a

FEDERAL RESERVE BANK
OF
ST. LOUIS

RECEIVED
FEDERAL RESERVE BOARD
WASHINGTON
1935 FEB 11 AM 9 09

February 8, 1935.

Federal Reserve Board,
Washington, D. C.

Gentlemen: Attention Mr. Chester Morrill, Secretary.

Receipt is acknowledged of your letter of February 6, enclosing copy of telegram addressed to the Chairman of the Federal Open Market Committee, in regard to the Federal Reserve Board's action on the resolution adopted at the meeting of the Committee in Washington on February 5, 1935.

Yours very truly,



Chairman of the Board.

W. H. Walters

333.3-a

FEDERAL RESERVE BANK
OF NEW YORK

February 7, 1935.

Dear Mr. Morrill:

Receipt is acknowledged, with thanks, of your confidential letter of February 2, and of the copy of the resolution adopted at the meeting of the executive committee of the Federal Open Market Committee on January 25, 1935.

Very truly yours,


J. H. CASE,
Chairman.

Mr. Chester Morrill,
Secretary, Federal Reserve Board,
Washington, D. C.

DECLASSIFIED
Authority EX Order 12356

*File 5
meeting
333.3-a*

February 6, 1935.

CONFIDENTIAL

Mr. F. H. Curtiss, Chairman,
Federal Reserve Bank of Boston,
Boston, Massachusetts.

Dear Mr. Curtiss:

There is attached, for your information,
all 2-6-35
a copy of a telegram addressed by the Federal Reserve Board today to the Chairman of the Federal Open Market Committee, advising of the action taken by the Board on the resolution adopted at the meeting of the Federal Open Market Committee in Washington on February 5, 1935.

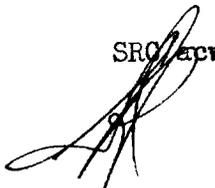
Very truly yours,

(Signed) Chester Morrill

Chester Morrill,
Secretary.

Inclosure

SRC:ecw



FILE COPY

DECLASSIFIED
Authority *EX Order 12256*

333.3-a

February 6, 1935.

CONFIDENTIAL

Mr. J. H. Case, Chairman,
Federal Reserve Bank of New York,
New York, New York.

Dear Mr. Case:

There is attached, for your information,
a copy of a telegram ²⁻⁶⁻³⁵ addressed by the Federal Reserve Board today to the Chairman of the Federal Open Market Committee, advising of the action taken by the Board on the resolution adopted at the meeting of the Federal Open Market Committee in Washington on February 5, 1935.

Very truly yours,

(Signed) Chester Morrill

Chester Morrill,
Secretary.

Inclosure.

 SRC/acw

FILE COPY

DECLASSIFIED
Authority *EX Order 12256*

333.3-a

February 6, 1955.

CONFIDENTIAL

Mr. R. L. Austin, Chairman,
Federal Reserve Bank of Philadelphia,
Philadelphia, Pennsylvania.

Dear Mr. Austin:

There is attached, for your information,
a copy of a telegram²⁻⁶⁻³⁵ addressed by the Federal Reserve Board today to the Chairman of the Federal Open Market Committee, advising of the action taken by the Board on the resolution adopted at the meeting of the Federal Open Market Committee in Washington on February 5, 1955.

Very truly yours,

(Signed) Chester Morrill

Chester Morrill,
Secretary.

Inclosure.

AR
SRC/acw

FILE COPY

DECLASSIFIED
Authority *EX Order 12956*

333.3-2

February 6, 1935.

CONFIDENTIAL

Mr. E. S. Burke, Jr.,
Acting Chairman,
Federal Reserve Bank of Cleveland,
Cleveland, Ohio.

Dear Mr. Burke:

There is attached, for your information,
a copy of a telegram ⁽²⁻⁶⁻³⁵⁾ addressed by the Federal Reserve Board today to the Chairman of the Federal Open Market Committee, advising of the action taken by the Board on the resolution adopted at the meeting of the Federal Open Market Committee in Washington on February 5, 1935.

Very truly yours,

(Signed) Chester Morrill

Chester Morrill,
Secretary.

Inclosure.

[Handwritten signature]
SRC/acw

FILE COPY

DECLASSIFIED
Authority EX Order 12356

333.3-2

February 6, 1935.

CONFIDENTIAL

Mr. W. W. Hoxton, Chairman,
Federal Reserve Bank of Richmond,
Richmond, Virginia.

Dear Mr. Hoxton:

There is attached, for your information,
a copy of a telegram²⁻⁶⁻³⁵ addressed by the Federal Reserve Board today to the Chairman of the Federal Open Market Committee, advising of the action taken by the Board on the resolution adopted at the meeting of the Federal Open Market Committee in Washington on February 5, 1935.

Very truly yours,

(Signed) Chester Morrill

Chester Morrill,
Secretary.

Inclosure.

 SRC/acw

FILE COPY

DECLASSIFIED
Authority EX Order 12356

733.3-6

February 6, 1935.

CONFIDENTIAL

Mr. W. H. Kettig,
Deputy Chairman,
Federal Reserve Bank of Atlanta,
Atlanta, Georgia.

Dear Mr. Kettig:

There is attached, for your information,
a copy of a telegram²⁻⁶⁻³⁵ addressed by the Federal Reserve Board today to the Chairman of the Federal Open Market Committee, advising of the action taken by the Board on the resolution adopted at the meeting of the Federal Open Market Committee in Washington on February 5, 1935.

Very truly yours,

(Signed) Chester Morrill

Chester Morrill,
Secretary.

Inclosure.

SRC/acw


FILE COPY

DECLASSIFIED
Authority EX Order 12256

333.3-a

February 6, 1935.

CONFIDENTIAL

Mr. E. M. Stevens, Chairman,
Federal Reserve Bank of Chicago,
Chicago, Illinois.

Dear Mr. Stevens:

There is attached, for your information,
a copy of a telegram²⁻⁶⁻³⁵ addressed by the Federal Reserve Board today to the Chairman of the Federal Open Market Committee, advising of the action taken by the Board on the resolution adopted at the meeting of the Federal Open Market Committee in Washington on February 5, 1935.

Very truly yours,

(Signature)

Chester Morrill,
Secretary.

Inclosure.

(Signature)
SRC/acw

FILE COPY

DECLASSIFIED
Authority EX Order 12956

333,3a

February 6, 1935.

CONFIDENTIAL

Mr. J. S. Wood, Chairman,
Federal Reserve Bank of St. Louis,
St. Louis, Missouri.

Dear Mr. Wood:

There is attached, for your information,
a copy of a telegram²⁻⁶⁻³⁵ addressed by the Federal Re-
serve Board today to the Chairman of the Federal
Open Market Committee, advising of the action taken
by the Board on the resolution adopted at the meet-
ing of the Federal Open Market Committee in Washing-
ton on February 5, 1935.

Very truly yours,

(Signature)

Chester Morrill,
Secretary.

Inclosure.

(Signature)
SFB/acw

FILE COPY

DECLASSIFIED
Authority EX Order 12256

333.3-a

February 6, 1955.

CONFIDENTIAL

Mr. J. M. Peyton, Chairman,
Federal Reserve Bank of Minneapolis,
Minneapolis, Minnesota.

Dear Mr. Peyton:

There is attached, for your information,
a copy of a telegram²⁻⁶⁻³⁵ addressed by the Federal Re-
serve Board today to the Chairman of the Federal
Open Market Committee, advising of the action taken
by the Board on the resolution adopted at the meet-
ing of the Federal Open Market Committee in Washing-
ton on February 5, 1955.

Very truly yours,

(Signature)

Chester Morrill,
Secretary.

Inclosure.

(Signature)
SRD/acw

FILE COPY

DECLASSIFIED
Authority *EX Order 12256*

333.3-2

February 6, 1935.

CONFIDENTIAL

Mr. E. P. Brown,
Deputy Chairman,
Federal Reserve Bank of Kansas City,
Kansas City, Missouri.

Dear Mr. Brown:

There is attached, for your information,
a copy of a telegram ²⁻⁶⁻³⁵ addressed by the Federal Reserve Board today to the Chairman of the Federal Open Market Committee, advising of the action taken by the Board on the resolution adopted at the meeting of the Federal Open Market Committee in Washington on February 5, 1935.

Very truly yours,

(Signed) Chester Morrill

Chester Morrill,
Secretary.

Inclosure.

[Handwritten signature]
SAC/acw

FILE COPY

DECLASSIFIED
Authority *EX Order 12256*

333.3-a

February 6, 1935.

CONFIDENTIAL

Mr. C. C. Walsh, Chairman,
Federal Reserve Bank of Dallas,
Dallas, Texas.

Dear Mr. Walsh:

There is attached, for your information,
a copy of a telegram ^{*2-6-35*} addressed by the Federal Reserve Board today to the Chairman of the Federal Open Market Committee, advising of the action taken by the Board on the resolution adopted at the meeting of the Federal Open Market Committee in Washington on February 5, 1935.

Very truly yours,

(Signed) Chester Morrill
U. S. Fed. R. S. B.
Chester Morrill,
Secretary.

Inclosure.

SRB/acw

FILE COPY

DECLASSIFIED
Authority EX Order 12956

333, 3-a

February 6, 1935.

CONFIDENTIAL

Mr. Walton N. Moore,
Deputy Chairman,
Federal Reserve Bank of San Francisco,
San Francisco, California.

Dear Mr. Moore:

There is attached, for your information,
a copy of a telegram²⁻⁶⁻³⁵ addressed by the Federal Reserve Board today to the Chairman of the Federal Open Market Committee, advising of the action taken by the Board on the resolution adopted at the meeting of the Federal Open Market Committee in Washington on February 5, 1935.

Very truly yours,

(Signed) Chester Morrill

Chester Morrill,
Secretary.

Inclosure.

 SRC/acw

FILE COPY

DECLASSIFIED
Authority Ex Order 12956

Form 148b

. E L E G R A M

**FEDERAL RESERVE BOARD
WASHINGTON**

333.3-a

February 6, 1935.

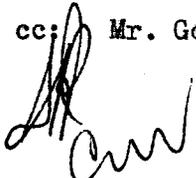
Harrison - New York

The Federal Reserve Board has given careful consideration to resolution adopted at meeting of Federal Open Market Committee on February 5 and has requested me to advise you that until further order of the Board it authorizes executive committee of Federal Open Market Committee to buy, sell or make shifts between maturities of Government securities up to \$250,000,000 and also to buy, sell or make shifts between maturities of an additional \$250,000,000 on telegraphic approval of a majority of the open market committee in case of emergency requiring action before a meeting of the full committee could be arranged. In granting this authority the Board will expect to be kept informed currently by the executive committee of its program and as to any developments in the situation which may affect the application of the program. The Board will have the whole matter of open market policy under constant review, and will advise ^{the} committee of changes to be made in the program in order more fully to adjust it to the requirements of the national situation.

(Signed) 

Morrill.

cc: Mr. Goldenweiser



SRC/acw

FILE COPY

333.3-a

EXCERPT FROM THE MINUTES OF THE MEETING OF THE FEDERAL RESERVE BOARD WITH THE
FEDERAL OPEN MARKET COMMITTEE HELD FEB. 5, 1935

Governor Harrison stated that during the morning the Federal Open Market Committee had held its first meeting of the year, that he had been reappointed chairman, and Mr. Burgess secretary, and that an executive committee had been appointed consisting of the Governors of the Federal Reserve Banks of Boston, New York, Cleveland, Richmond and Chicago; the only change in the membership of the committee being the inclusion of the Governor of the Federal Reserve Bank of Richmond instead of the Governor of the Federal Reserve Bank of Philadelphia. The reason for this change, Governor Harrison stated, was that it was felt there was some advantage to be gained in rotating the members of the executive committee when it was possible to do so provided the members were sufficiently accessible to Washington to insure expeditious meetings whenever necessary.

FEDERAL RESERVE BANK OF PHILADELPHIA

THIRD DISTRICT

333.3-a

RICHARD L. AUSTIN
CHAIRMAN OF THE BOARD
AND FEDERAL RESERVE AGENT

February 4, 1935

RECEIVED
FEDERAL RESERVE BOARD
WASHINGTON

FEDERAL RESERVE BOARD,
Washington, D. C.

1935 FEB 5 AM 9 01

Dear Sirs -

We beg leave to acknowledge the receipt
of your letter of February 2nd, containing a copy
of a telegram sent to members of the Federal Open
Market Committee, approving the authorization of the
Executive Committee to make certain purchases and sales
of Government securities for the System's account.

Very truly yours,


Chairman.

✓

Form No. 131

Office Correspondence

FEDERAL RESERVE
BOARDDate February 2, 1935
DEC 11 1935

To Mr. Goldenweiser

Subject: Holdings of U. S. Government
securities of Federal Reserve special
investment account.

From Miss Burr

GPO 16-852

The composition of the Federal Reserve special investment account on January 30, 1935 is summarized in Table I. Securities held consisted almost entirely of Treasury bills and notes. Holdings of Treasury bills amounted to about one-fourth of all outstanding issues. Maturities within six months include Treasury bills with issues maturing nearly every week which vary from \$13 to \$28 millions and three other issues; \$74 millions of Treasury notes on March 15, \$85 millions of 4th Liberties called for April 15, and \$130 millions of Treasury notes on June 15.

During the past year the holdings of Treasury bills have increased about \$111 millions and of Treasury notes about \$398 millions, largely as a result of the absence of issues of certificates of indebtedness. Treasury bills and notes were purchased to replace maturing certificates of indebtedness which were outstanding a year ago in the amount of \$492 millions. This shift in the holdings of the account has resulted in an increase as compared with last January of \$265 millions in securities maturing after a year.

Maturities during the next six months of securities in the account appear to offer no serious problems. They will require weekly purchases to meet maturing Treasury bills and arrangements for replacing larger maturities in March (Treasury notes, \$74 millions), April (4th Liberties, \$85 millions) and June (Treasury notes, \$130 millions).

Prices of Government securities during January have shown irregularities as a result of concern over the outcome of the "gold clause" case before the Supreme Court. On January 11 a marked spread developed between prices of Government securities with and without the gold clause, reflecting a strong preference for gold-clause obligations. At the close on January 11, the spread was about $3/4$ of a point in the case of Treasury bonds and $1/4$ of a point for Treasury notes. During the balance of the month the spread between gold clause and other obligations continued. The spread narrowed somewhat on the 14th, then broadened again.

The spread during January between prices of Government securities with and without the gold clause is shown in the attached charts, as follows: in chart 1, daily January closing prices of two sets of active Treasury bonds and in chart 2 (a), daily average yield on Treasury bonds with and without the gold clause and (b), daily closing prices on Treasury notes with and without the gold clause.

Government obligations with the "gold clause" held in the fund on January 30 include \$537 millions of Treasury notes and \$195 millions of bonds. The specific issues are listed in Table 2. The "gold clause" bonds are 1st and 4th Liberty Loan issues and include \$35 millions of 4th Liberties called for redemption on April 15.

Table 1. Holdings of U. S. Government Securities of Federal Reserve
Special Investment Account, Jan. 30, 1935.

(In millions of dollars)

	Jan. 30, 1935	Change From	
		Preceding Week	Year Ago
Total	2,223	0	0
By Maturities:			
Within 15 days	40	-1	-5
16--30 days	36	+1	-38
31--60 days	168 ^{1/}	+11	-132
61--90 days	152 ^{2/}	-17	-17
3--6 months	385 ^{3/}	+12	+85
6 months--1 year	170	-11	-159
1--5 years	1094	+4	+166
Over 5 years	178	0	+99
By Types of Securities:			
Bills	501	-4	+111
Certificates	---	0	-492
Notes	1403	+4	+398
Bonds	319	0	-17

^{1/} Includes \$74 millions of Treasury notes maturing Mar. 15.

^{2/} Includes \$85 millions of 4th Liberties called for redemption on Apr. 15.

^{3/} Includes \$130 millions of Treasury notes maturing June 15.

Table 2. Holdings of U. S. Government "Gold Clause" Securities of
Federal Reserve Special Investment Account, Jan. 30, 1935.

(In millions of dollars)

Treasury notes:

3%, June 15, 1935	130
3 1/4%, Aug. 1, 1936	79
2 3/4%, Dec. 15, 1936	99
3%, Apr. 15, 1937	84
3 1/4%, Sept. 15, 1937	85
2 5/8%, Feb. 1, 1938	59
	<hr/>
Total, Treasury notes	<u>537 1/</u>

Bonds:

First Liberty 3 1/2	25
First Liberty 4 1/4	29
Fourth Liberty 4 1/4 (called)	85
Fourth Liberty 4 1/4 (uncalled)	56
	<hr/>
Total bonds	195 2/

1/ On December 31, 1934, total outstanding Treasury notes, with gold clause amounted to \$3,294 millions.

2/ Total outstanding gold clause bonds (including some outstanding bonds called for redemption on Apr. 15 and Oct. 15, 1934) on December 31, 1934 amounted to \$11,136 millions.

Daily closing prices of selected Treasury bonds, with and without gold clause, Chart 1.
January, 1935

GODDARD RHOEK COMPANY, INC. NEWBURYPORT, MASSACHUSETTS

NO. 328. 40 DIVISIONS PER INCH BOTH WAYS. 150 BY 200 DIVISIONS.

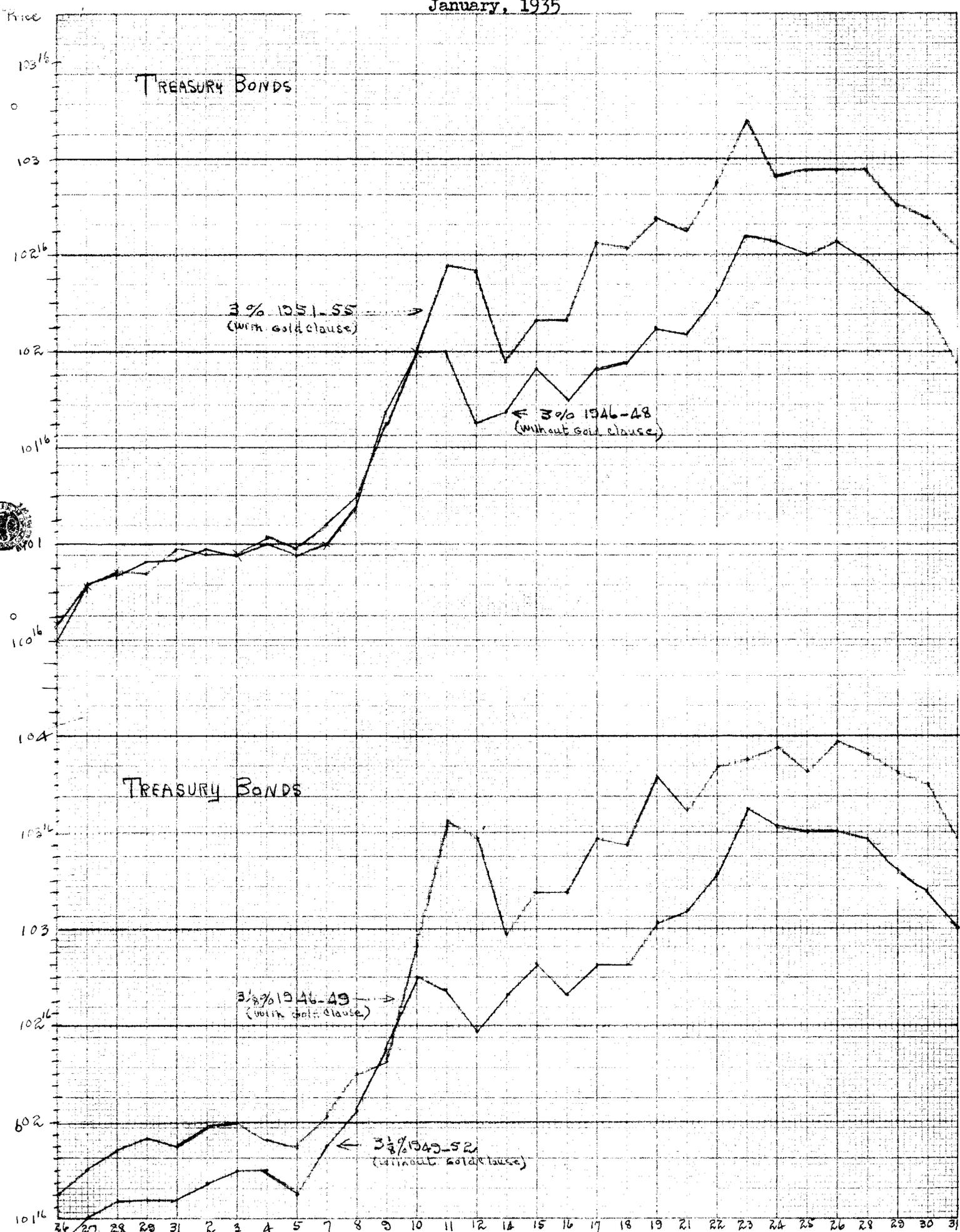
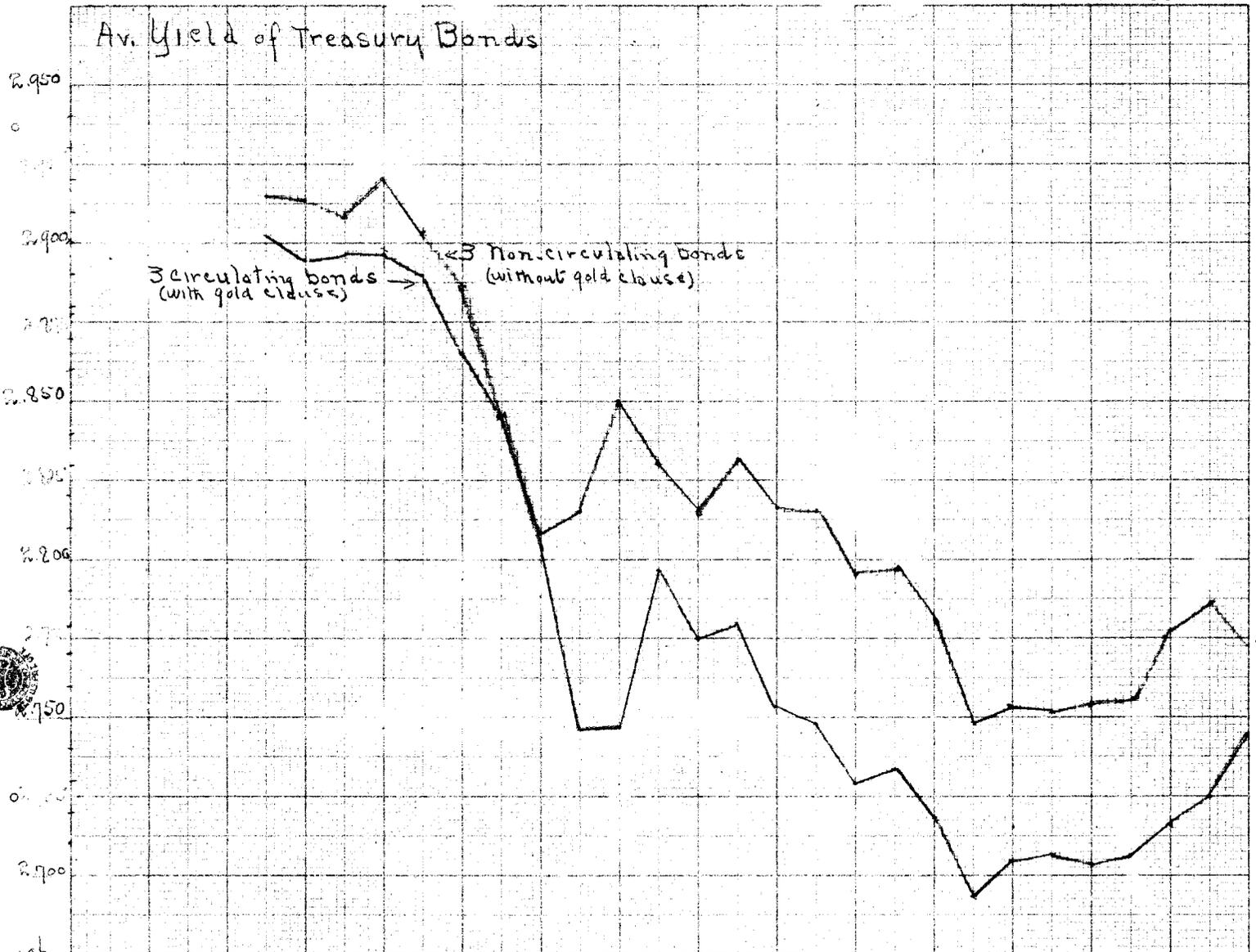
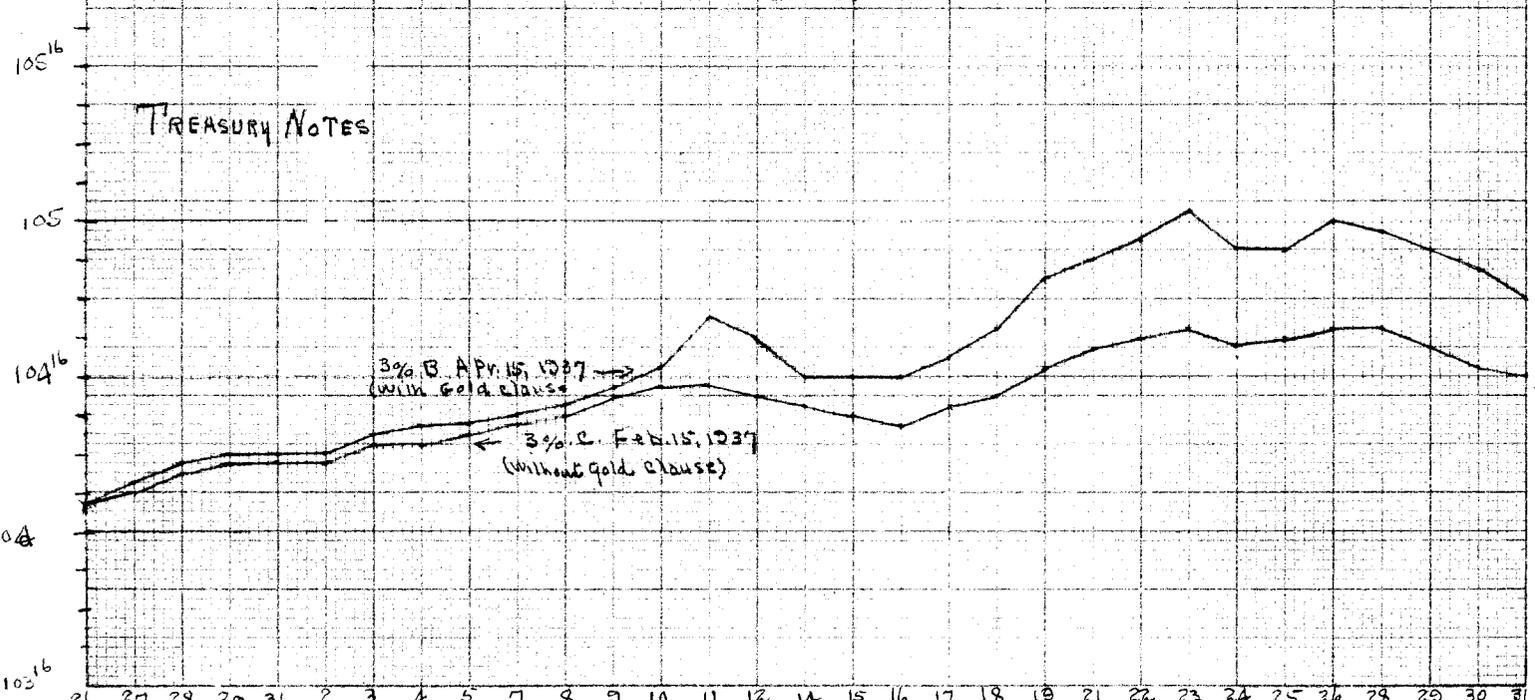


Chart.

a. Daily average yield Treasury bonds with and without gold clause, January 1935



b. Daily closing prices of selected Treasury notes, with and without gold clause, January 1935



CC-DEX BOOK COMPANY, INC. NORWOOD, MASSACHUSETTS

NO. 328 20 DIVISIONS PER INCH BOTH WAYS. 150 BY 200 DIVISIONS.

DECLASSIFIED
Authority EX Order 12956

333.3-a

February 2, 1935.

CONFIDENTIAL

Mr. F. H. Curtiss, Chairman,
Federal Reserve Bank of Boston,
Boston, Massachusetts.

Dear Mr. Curtiss:

The Chairman of the Federal Open Market
Committee is being advised by telegram today that
the Board approves the authorization of the execu-
tive committee, pending a meeting of the full com-
mittee on February 5, 1935, to make purchases or
sales or shifts between maturities in the System
account in accordance with the resolution adopted
at the meeting of the executive committee on Janu-
ary 25, 1935. A copy of the resolution is attached.

Very truly yours,

(Signed) Chester Morrill
Chester Morrill,
Secretary.

cc: Mr. Goldenweiser

SJS/acw

[Handwritten signature]
[Handwritten initials]

FILE COPY

DECLASSIFIED
Authority EX Order 12956

333, 3-a

February 2, 1935.

CONFIDENTIAL

Mr. J. H. Case, Chairman,
Federal Reserve Bank of New York,
New York, New York.

Dear Mr. Case:

The Chairman of the Federal Open Market Committee is being advised by telegram today that the Board approves the authorization of the executive committee, pending a meeting of the full committee on February 5, 1935, to make purchases or sales or shifts between maturities in the System account in accordance with the resolution adopted at the meeting of the executive committee on January 25, 1935. A copy of the resolution is attached.

Very truly yours,

(Signature)

Chester Morrill,
Secretary.

SFC/acw

(Signature)
CW

FILE COPY

DECLASSIFIED
Authority EX Order 12956

333.3-a

February 2, 1935.

CONFIDENTIAL

Mr. R. L. Austin, Chairman,
Federal Reserve Bank of Philadelphia,
Philadelphia, Pennsylvania.

Dear Mr. Austin:

The Chairman of the Federal Open Market Committee is being advised by telegram today that the Board approves the authorization of the executive committee, pending a meeting of the full committee on February 5, 1935, to make purchases or sales or shifts between maturities in the System account in accordance with the resolution adopted at the meeting of the executive committee on January 25, 1935. A copy of the resolution is attached.

Very truly yours,

(Signed) *[Signature]*

Chester Morrill,
Secretary.

[Signature]/acw

FILE COPY

See ans. 2/4/35

DECLASSIFIED
Authority EX Order 12256

333.3-2

February 2, 1935.

CONFIDENTIAL

Mr. E. S. Burke, Jr.,
Acting Chairman,
Federal Reserve Bank of Cleveland,
Cleveland, Ohio.

Dear Mr. Burke:

The Chairman of the Federal Open Market
Committee is being advised by telegram today that
the Board approves the authorization of the execu-
tive committee, pending a meeting of the full com-
mittee on February 5, 1935, to make purchases or
sales or shifts between maturities in the System
account in accordance with the resolution adopted
at the meeting of the executive committee on Janu-
ary 25, 1935. A copy of the resolution is attached.

Very truly yours,

[Signature]

Chester Morrill,
Secretary.

SBC/acw

[Handwritten signature]

FILE COPY

DECLASSIFIED
Authority EX Order 12956

333.3-a

February 2, 1935.

CONFIDENTIAL

Mr. W. W. Hoxton, Chairman,
Federal Reserve Bank of Richmond,
Richmond, Virginia.

Dear Mr. Hoxton:

The Chairman of the Federal Open Market
Committee is being advised by telegram today that
the Board approves the authorization of the execu-
tive committee, pending a meeting of the full com-
mittee on February 5, 1935, to make purchases or
sales or shifts between maturities in the System
account in accordance with the resolution adopted
at the meeting of the executive committee on Janu-
ary 25, 1935. A copy of the resolution is attached.

Very truly yours,

(Signed) Chester Morrill

Chester Morrill,
Secretary.

687 acw
AMC

FILE COPY

DECLASSIFIED
Authority EX Order 12956

333.3-a

February 2, 1935.

CONFIDENTIAL

Mr. W. H. Kettig,
Deputy Chairman,
Federal Reserve Bank of Atlanta,
Atlanta, Georgia.

Dear Mr. Kettig:

The Chairman of the Federal Open Market Committee is being advised by telegram today that the Board approves the authorization of the executive committee, pending a meeting of the full committee on February 5, 1935, to make purchases or sales or shifts between maturities in the System account in accordance with the resolution adopted at the meeting of the executive committee on January 25, 1935. A copy of the resolution is attached.

Very truly yours,

[Faint signature]

Chester Morrill,
Secretary.

WJC/acw
[Handwritten signature]

FILE COPY

DECLASSIFIED
Authority EX Order 12956

333.3-a

February 2, 1935.

CONFIDENTIAL

Mr. E. M. Stevens, Chairman,
Federal Reserve Bank of Chicago,
Chicago, Illinois.

Dear Mr. Stevens:

The Chairman of the Federal Open Market
Committee is being advised by telegram today that
the Board approves the authorization of the execu-
tive committee, pending a meeting of the full com-
mittee on February 5, 1935, to make purchases or
sales or shifts between maturities in the System
account in accordance with the resolution adopted
at the meeting of the executive committee on Janu-
ary 25, 1935. A copy of the resolution is attached.

Very truly yours,

Chester Morrill,
Secretary.

ARG/SCW
FILE COPY

DECLASSIFIED
Authority EX Order 12956

333.3-2

February 2, 1935.

CONFIDENTIAL

Mr. J. S. Wood, Chairman,
Federal Reserve Bank of St. Louis,
St. Louis, Missouri.

Dear Mr. Wood:

The Chairman of the Federal Open Market Committee is being advised by telegram today that the Board approves the authorization of the executive committee, pending a meeting of the full committee on February 5, 1935, to make purchases or sales or shifts between maturities in the System account in accordance with the resolution adopted at the meeting of the executive committee on January 25, 1935. A copy of the resolution is attached.

Very truly yours,

[Signature]

Chester Morrill,
Secretary.

SRC/acw
[Handwritten signature]

FILE COPY

DECLASSIFIED
Authority EX Order 12956

333.3-a

February 2, 1935.

CONFIDENTIAL

Mr. J. N. Peyton, Chairman,
Federal Reserve Bank of Minneapolis,
Minneapolis, Minnesota.

Dear Mr. Peyton:

The Chairman of the Federal Open Market
Committee is being advised by telegram today that
the Board approves the authorization of the execu-
tive committee, pending a meeting of the full com-
mittee on February 5, 1935, to make purchases or
sales or shifts between maturities in the System
account in accordance with the resolution adopted
at the meeting of the executive committee on Janu-
ary 25, 1935. A copy of the resolution is attached.

Very truly yours,

Chester Morrill
Chester Morrill,
Secretary.

[Handwritten signature]
SRC/acw

FILE COPY

DECLASSIFIED
Authority EX Order 12956

333.3-a

February 2, 1935.

CONFIDENTIAL

Mr. E. P. Brown,
Deputy Chairman,
Federal Reserve Bank of Kansas City,
Kansas City, Missouri.

Dear Mr. Brown:

The Chairman of the Federal Open Market Committee is being advised by telegram today that the Board approves the authorization of the executive committee, pending a meeting of the full committee on February 5, 1935, to make purchases or sales or shifts between maturities in the System account in accordance with the resolution adopted at the meeting of the executive committee on January 25, 1935. A copy of the resolution is attached.

Very truly yours,

Chester Morrill,
Secretary.

SRC/acw
[Handwritten signature]

FILE COPY

DECLASSIFIED
Authority EX Order 12956

333.3-a

February 2, 1935.

CONFIDENTIAL

Mr. C. C. Walsh, Chairman,
Federal Reserve Bank of Dallas,
Dallas, Texas.

Dear Mr. Walsh:

The Chairman of the Federal Open Market Committee is being advised by telegram today that the Board approves the authorization of the executive committee, pending a meeting of the full committee on February 5, 1935, to make purchases or sales or shifts between maturities in the System account in accordance with the resolution adopted at the meeting of the executive committee on January 25, 1935. A copy of the resolution is attached.

Very truly yours,

Chester Morrill,
Secretary.

[Handwritten signature]
BRC/acw

FILE COPY

DECLASSIFIED
Authority EX Order 12256

333.3-a

February 2, 1955.

CONFIDENTIAL

Mr. Walton N. Moore,
Deputy Chairman,
Federal Reserve Bank of San Francisco,
San Francisco, California.

Dear Mr. Moore:

The Chairman of the Federal Open Market Committee is being advised by telegram today that the Board approves the authorization of the executive committee, pending a meeting of the full committee on February 5, 1955, to make purchases or sales or shifts between maturities in the System account in accordance with the resolution adopted at the meeting of the executive committee on January 25, 1955. A copy of the resolution is attached.

Very truly yours,

[Signature]

Chester Morrill,
Secretary.

SMC/acw
[Handwritten signature]

FILE COPY

DECLASSIFIED
Authority *Ex Order 12856*

Form 148b

ELEGRAM

333.3-a

**FEDERAL RESERVE BOARD
WASHINGTON**

FEB 2 1935

Harrison - New York

Burgess' telegrams January 25 and 26. Board approves authorization of executive committee of Federal Open Market Committee, pending meeting of full committee on February 5, to make purchases or sales or shifts between maturities in System account in accordance with resolution adopted at meeting of executive committee on January 25.

(Signed) Chester Morrill

Morrill.

cc: Mr. Goldenweiser

SBA/acw
[Handwritten signature]
[Handwritten signature]

[Handwritten signature]
MINUTES OF
FEB 2 - 1935
[Handwritten signature]

FILE COPY

Form No. 131

Office Correspondence

FEDERAL RESERVE
BOARDDate January 31, 1935.To Mr. Paulger.Subject: Matters for discussion at
meeting of Open Market
Committee February 5, 1935.From Mr. Crays. *ARC*

The present divided bank supervisory authority makes the presentation, discussion and solution of problems arising in connection with bank supervision difficult; and this is particularly true when there exists the indication that significant changes in the present "set-up" are contemplated by those in authority. Therefore, it seems that a proper presentation, discussion and solution of such problems are dependent upon the ability to fit any proposals made into the proposals now seriously contemplated to effect a unification of existing supervisory functions. Any suggestions made looking toward a more efficient and worthwhile bank supervisory service, therefore, depend for their value and worth upon the aim and purpose of those in authority to effect an adequate supervisory service which will purpose, 1st, to eliminate the weaknesses which have tended to precipitate the banking debacle of the past era; 2nd, to add to its functions those functions which past experience has proven are so badly needed; 3rd, to eliminate those functions which in the past have failed to establish their necessity; and, 4th, to coordinate the present divided responsibility so as to establish and maintain a consistent approach to all problems of bank supervision within the limits of a broad but harmonious policy, to the end that those operating the banking institutions of our country may stand on firm ground, know what will be expected of them and foreknow as far as is humanly possible what they may and may not do.

With this preface, I offer as a possible subject for discussion at the conference called for February 5, 1935, the topic "Supervision of Bank

-2-

Management". Like Mark Twain's comment upon the weather, this is a matter concerning which there has been much talk but nobody seems to do anything about it; yet I think it will be generally admitted that, in the final analysis, the success or failure of banking institutions is dependent upon the character of their management. Upon the efficiency of such management depends the operating gain or loss of the institution; upon the judgment of such management depends the soundness of the bank's assets; upon the honesty and integrity of such management depends in large measure the economic security of the institution's clientele. Volumes have been written on bank operations, the investment of bank funds and the appraisal of bank assets, but little has been written or said about the inability or unwillingness of bank management to adopt sound policies where experience has said "prudence must prevail".

As a result of prior lack of authority on the part of the Comptroller of the Currency to protect institutions from unsafe and unsound practices of bank management, Section 30 of the Banking Act of 1933 was added to the statute books. It is believed, however, that despite the authority thus granted, no action has as yet been taken thereunder. It might be argued that this is proof of the safety and soundness of existing bank management were it not so patently evident that such is not the case. In addition to Section 30 of the Banking Act of 1933 two other phases of supervisory authority over bank management have come into being as a result of the banking crisis of 1933; yet these are, in the final analysis, only remotely connected with the problem and do not present any solution looking toward the future. They are (1) the Reconstruction Finance Corporation's condition, apparently exercised only in occasional cases, that, prior to the purchase by it of preferred stock or capital debentures, bank management shall be subject to its approval;

-3-

and (2) Section 33 of the Banking Act of 1933 which added Section 8A to the Clayton Antitrust Act. The administration of Section 8A has placed a tremendous burden upon the Federal Reserve Board and since its enactment the Board has considered approximately 2500 applications. There was, however, apparently little intent on the part of the framers of Section 8A that its provisions should be directed at the safety and soundness of bank management, just as there appears to have been no such intent in the enactment of Section 8 of the Clayton Act.

However, in its Regulation L, Series of 1933, relating to relationships under the provisions of the Clayton Act, the Board stated:

"In determining whether the issuance of such a permit would be compatible with the public interest, the Federal Reserve Board will consider --

- (1) Whether the banks involved are natural competitors;
- (2) Whether their having the same directors, officers or employees would tend to lessen competition or to restrict credit;
- (3) The condition and the character of the management of the banks with which the applicant is connected and the extent of his responsibility therefor;
- (4) Whether the applicant discharges the duties and responsibilities of his office by attending directors' meetings or otherwise;
- (5) Whether the applicant, his family, or his interests have abused the credit facilities of the bank or banks he is already serving;
- (6) Whether the applicant's influence upon the banks involved in his application is likely to be helpful or harmful to such banks;
- (7) The nature and extent of the loans made by each of such banks secured by stock or bond collateral and the policy of each bank with respect to making such loans; and

-4-

- (8) Any other factors having a bearing upon the effect which the issuance of the permit may have upon the public interest."

Obviously it is possible that, within the intent of the framers of Sections 8 and 8A, only items (1), (2) and (7) above constitute the problems at issue and items (3), (4), (5), (6) and (8) are incidental factors to be considered only in resolving doubts one way or the other in those cases where the facts with respect to items (1), (2) and (7) cannot be considered conclusive. Nevertheless, in passing upon many Clayton Act applications all of the eight items mentioned above have been fully considered as to their bearing upon the question of "compatibility with the public interest" and many permits have been granted or denied in accordance with the conclusion thus reached. The consideration of such factors therefore constitutes a beginning in the appraisal of bank management. As now reported and considered, however, they cannot be deemed conclusive for we have inadequate and sometimes biased comments upon bank personnel and management with which to contend. Further, it is obvious that only a small and slow beginning may be made since banking in this country, like Topsy, "just grew" and a too sharp departure from the methods of the past would be not only unfair to those who, while having survived, still find themselves in various kinds of difficulties, but might be disastrous to that individual initiative which in large measure and in spite of its dangers, has brought this country to the position it now occupies.

The facts indicated with respect to bank personnel and bank management in the analysis of Clayton Act applications has been rather revealing, particularly as it has brought to light in many instances the ability or

-5-

facility with which apparently unsound or unsafe individuals can persist in dominating and controlling banking institutions in spite of repeated criticisms on the part of field examiners. Needless to say, however, the consideration of some 2500 Clayton Act applications has presented to the view only a very small segment of that circle which embraces the banking management of the country.

It should be obvious that the failure to recognize the necessity for a more adequate yet fair supervision over bank management and the failure to do something about it will precipitate one of three results, viz. (1) a return to the lax policy of the past with its attendant dangers, (2) a control so strict and so difficult of fair administration as to eventually result in no control at all, or (3) complete government control and operation of banks. The undesirability of the first and third results is too well known to need comment. The imminence of the second can be seen in the proposals (to one of which I have already had my attention directed) to license bank officers and directors in much the same manner as individuals in other professions are licensed.

The question naturally arises as to what concrete proposals can be made looking toward the consummation of responsible and effective supervision over bank management. Fortunately, with a unification of bank supervisory functions it appears highly possible to effect, without undue difficulty, the organization within the existing authority of a division charged with this responsibility. The Comptroller's office has its field examiners, its district chief national bank examiners and its Assistant Chief national bank examiners with headquarters in Washington. The Federal

-6-

Reserve Board has its comparable "set-up" in its Division of Examinations at Washington and its Federal Reserve Agents in the twelve Federal Reserve Districts. The F. D. I. C. and the R. F. C. have their Washington staffs and their district agencies and supervisors. The Assistant Chief national bank examiners in the Comptroller's office concern themselves primarily with a review of the asset condition of the banks under their jurisdiction as revealed in the reports of examination. The unification of bank supervisory functions would permit, it seems, of the creation within the bank supervisory authority of a division or a sub-division specializing in the supervision of bank management. Such a division could formulate broad policies relating to bank management and within those policies effectively combat and safeguard against unsafe and unsound policies of management. Through the field and district representatives of the supervisory authority individual problems of bank management could in large measure be solved or more effectively coped with. Several instances of the possibilities of such supervision have been noted in the consideration of Clayton Act applications wherein one Federal Reserve Agent has dispatched a representative to the community involved in an endeavor to gather and present first hand information concerning the applicant and the institutions concerned. Naturally, this has been done only in a few cases where particular problems have been presented but it suggests the possibilities of an adequate and proper supervision over bank management. Obviously, such a division or sub-division should be manned by individuals not only experienced in the field of bank management and supervision but proven in their ability to analyze human character and appraise human capabilities. Those to whom

-7-

such work is allocated should be charged primarily with the duty of supervision of management alone. In the final analysis, and aside from certain technical requirements, effective bank management involves only the exercise of prudent judgment by an honest and reasonably capable man.

TELEGRAM

333.3-a

FEDERAL RESERVE SYSTEM

(LEASED WIRE SERVICE)

RECEIVED AT WASHINGTON, D. C.

244bfa

New York NY 503p Jan 28

Governor Eccles

1935 JAN 28 PM 5 09

FR Board Washington

We have now received telegraphic approval from all members of the Federal open market committee of the proposals agreed upon by the executive committee at its meeting on friday January 25 and shall appreciate the Federal Reserve Boards action on these proposals.

Burgess

507pm

see memo 2/2/35
see telegram 4/26/35

Circulate

TELEGRAM

333.3-a

FEDERAL RESERVE SYSTEM

97bs

(LEASED WIRE SERVICE)

New York Jan 26 1257P

RECEIVED AT WASHINGTON, D. C.

Governor Eccles

1935 JAN 26 PM 1 13

Washington

Carded

The following telegram is going to all Governors this morning

"The Executive Committee of the Federal Open Market Committee meeting in Washington yesterday voted to request the members of the full committee subject to the approval of the F R Board to authorize the Executive Committee, pending a meeting of the full committee in the near future, to make purchases or sales or shifts between maturities in the system account up to a total of \$250,000,000. This authorization is in addition to the authorization to make shifts between maturities up to 100 million dollars voted at the December 17 meeting. This authorization is desired primarily to place the system in position to use its influence towards preventing any possible disturbances in the market pending a meeting of the full committee. Will you please

16-794
1/28/35
see ans. 2/2/35

TELEGRAM

FEDERAL RESERVE SYSTEM

(LEASED WIRE SERVICE)

Sheet 2-97bs

RECEIVED AT WASHINGTON, D. C.

wire your approval or disapproval Monday if possible. Tentative minutes of meeting being mailed today."

Burgess

111PM

mlb

1/28/24
Copies sent Messrs. Thomas
Hamlin Miller James
& Szymczak.
[Signature]

333.3-a

*To Goldenweiser
to Carpenter
file-up*

THE SECRETARY OF THE TREASURY
WASHINGTON

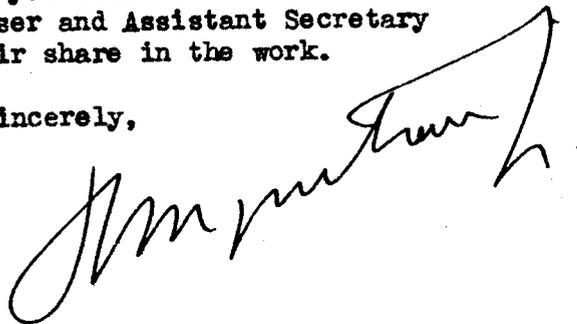
January 15, 1935.

Dear Mr. Morrill:

This will acknowledge your memorandum of January 9th, to which was attached a summary of the actions taken by the Open Market Committee of the Federal Reserve Board in regard to open market policies.

I appreciate your having this prepared for me, and wish that you would act for me in thanking Dr. Goldenweiser and Assistant Secretary Carpenter for their share in the work.

Sincerely,



Mr. Chester Morrill, Secretary,
Federal Reserve Board,
Washington, D. C.

W Carpenter

333.3-a

January 9, 1935

Memorandum to Secretary Morgenthau:

You will remember that at a recent conference at the Treasury which I attended with Governor Eccles you asked that there be prepared for your information in "tabloid" form, a summary in parallel columns of the actions which had been taken by the Open Market Committee and the Federal Reserve Board, as shown by the Board's records, in regard to open market policies beginning in 1926. This has been done by Dr. Goldenweiser and Assistant Secretary Carpenter and a copy is attached to this memorandum.

See 1-5-35

Secretary.

Attachment. (Copy No. 5)

CC - Each Board member
and Dr. Goldenweiser

File copy of summary - No. 1. Attached.

CM-yd

CW

FILE COPY

see ans 1/15/35

333.3-a

January 8, 1934.

Governor Eccles:

You will remember that Secretary Morgenthau, at the recent conference in the Treasury which I attended with you, requested that there be prepared for his information in "tabloid" form, a résumé in parallel columns of the actions which had been taken by the Open Market Committee and the Federal Reserve Board in regard to open market policies beginning in 1926. Dr. Goldenweiser and Mr. Carpenter have collaborated in the preparation of this summary from our records and three copies are attached. I have twelve additional copies which Dr. Goldenweiser sent over to me, presumably with the thought that a copy might be furnished to each Board member and that the others should be available for such disposition as might be decided upon. I am, however, holding these copies on my desk awaiting your instructions.

Cm

* See 1-5-35

CM-yd

I approve of disposition of reports as outlined in above
Memo.

Attachments
Copies 2, 5, 4

M.S.C.

See memo 1/9/35 to Morgenthau

Form No. 131

Office Correspondence

FEDERAL RESERVE
BOARD

303.3-a

Date. January 7, 1935

To Mr. Morrill

Subject: _____

From Mr. Goldenweiser



G.P.O. 16-852

1/5/35

I am sending you 15 copies of the memorandum on "Open Market Operations of the Federal Reserve System" prepared at the request of Secretary Morgenthau. These copies are all marked "confidential" in red pencil and are numbered. I am retaining five copies in this office.

- Mr. Hamlin - No. 6
- Mr. Miller - No. 7
- Mr. Szymczak - No. 8
- Mr. James - No. 3
- Mr. Eccles - No. 4
- Mr. Thomas - No. 2

yd

Miss Egan # 10 5/3/35
yd

see memo 1/8/35 to Eccles

DECLASSIFIED
Authority: Ex Order 12356

333.3-a

Confidential

January 5, 1935

Carded

OPEN-MARKET OPERATIONS
OF THE FEDERAL RESERVE SYSTEM

Copy #19 belonging
to Mr. Thomas
destroyed 5-14-62
A.B.

1

see memo 1/7/35

DECLASSIFIED
Authority *Ex Order 12956*

OPEN-MARKET OPERATIONS OF THE FEDERAL RESERVE SYSTEM

Attached there is a record in tabular form for the years 1926-1934 of recommendations by the System Open Market Committee submitted to the Federal Reserve Board for review. From January 1, 1926, until May, 1930, recommendations with respect to open-market operations were made to the Board by a committee consisting of the Governors of the Federal Reserve Banks of Boston, New York, Philadelphia, Cleveland, and Chicago. Beginning with May 21, 1930, the Committee included a representative from each Federal Reserve bank, and after the passage of the Banking Act of 1933 such a committee was required by law. The attached document shows the dates upon which the Open Market Committee made its recommendations, the position of the open-market account at the time, the nature of the recommendations, and the action which the Board took on these recommendations. This record indicates that the Board in practically all instances concurred with the recommendations made by the Committee.

In examining this summary it should be kept in mind that the actual course of negotiations is not adequately indicated by the official record. Policies have been generally determined in informal conferences, by telephone or otherwise, prior to the making of formal recommendations. In these conferences the initiative has been taken not infrequently by the Governor of the Federal Reserve Board. It has not been unusual to have an informal agreement on a program between the Governor of the Board and the Chairman of the Open Market Committee prior to the meeting of the Committee. Approval of the program, first by the Committee and then by the Board, was usually to be expected in such cases.

Some of the smaller changes shown in System account represent either temporary transactions between that account and individual Reserve banks, which in no way affect the market, or occasional replacements in anticipation of maturities.

Holdings System Investment Account		Committee Recommendations	Review by Federal Reserve Board
Date	Amount		
Jan. 17, 1926	\$260,000,000	Jan.18,1926--Agreed that while it is not advisable to sell immediately the \$50,000,000 short-term securities acquired during latter part of December 1925 for resale possibly in January 1926, situation should be carefully watched in order that action might be taken at any time that developments disclose desirability of selling.	On January 25 Board interposed no objection to Committee furnishing the market with an amount of certificates up to \$50,000,000 against definite orders. This action taken upon receipt of advice from New York bank that money conditions in New York were easing considerably.
Mar. 7, 1926	\$223,056,000	Mar.8,1926--Chairman of Committee recommended replacement of \$66,000,000 of maturing securities.	Board interposed no objection to Committee replacing so far as possible \$66,000,000 of securities maturing on March 15, 1926.
Mar. 19, 1926	\$173,589,000	Mar.20,1926--It was the unanimous opinion of the Committee that other than the replacement of the March 15 maturities no action should be taken, at least until after March 23, when the Treasury pays off \$121,000,000 of 3rd Liberty bonds and when readjustments after the usual quarter-day movement will have been completed.	On March 23 Board approved recommendations that no change be made in account except that March 15 maturities be replaced if conditions seemed to warrant. (\$31,000,000 of March 15 maturities had not been replaced at that time.)
Mar. 23, 1926	\$183,839,000	Mar.24,1926--Committee and Governor's Conference recommended that if developments in the money market indicate need for doing so, the amount of securities in the System Account be increased to \$300,000,000, but no purchases shall be made after April 15, 1926, without further consideration.	Recommendation was considered by Board at meetings on March 24 and 25 and approved on latter date.
June 1, 1926	\$282,500,000	June 2,1926--Committee agreed that \$37,000,000 of June 15 maturities should be replaced by other short-term governments.	Replacements approved by Board.

DECLASSIFIED
 Authority: EO Order 12958

3.

Holdings System Investment Account		Committee Recommendations	Review by Federal Reserve Board
Date	Amount		
June 20, 1926	\$263,700,000	June 21, 1926--System Account Committee recommended that System Account be maintained at existing amount (approx. \$275,000,000) but with authority to make temporary purchases or sales within a range of \$50,000,000 as may be deemed advisable by the Committee, any such purchases to be liquidated within a reasonable time as market conditions warrant.	Board met jointly with Committee and Committee's recommendation and Board's approval was in simultaneous vote.
Aug. 16, 1926	\$267,863,000	<p>Aug. 17, 1926--Committee recommended sale of approximately \$40,000,000 Third Liberty Loan bonds to Treasury (at request of Treasury) without replacement and that a meeting be called the early part of September to consider conditions at that time.</p> <p>Committee also approved the sale, without replacement, to a foreign correspondent made on August 16, 1926, of \$2,300,000 Treasury notes, the sale of \$5,000,000 Treasury notes to a foreign correspondent sometime that week, and the sale to a foreign correspondent during the next few weeks of approximately \$15,000,000 of short-term securities.</p>	Committee meeting attended by three members of Board, and at its meeting on Aug. 23, Board noted approval by all Federal Reserve banks of sale to Treasury of \$40,000,000 of bonds without replacement. Minutes of Aug. 17 meeting of Committee presented at meeting of Board on Aug. 24 and were ordered circulated without action being taken.
Sept. 9, 1926	\$204,975,000	Sept. 10, 1926--Committee recommended that account be maintained for the present at approximately \$200,000,000, with the understanding that the Committee could, at its discretion, increase or decrease the account by not more than \$50,000,000. It was also understood that in the event of further gold imports for the account of foreign correspondent, we should continue to furnish them with securities from	In a separate meeting on Sept. 10, the Board authorized the Committee to maintain the account at from \$200,000,000 to \$225,000,000.

4.

Holdings System Investment Account		Committee Recommendations	Review by Federal Reserve Board
Date	Amount		
Nov. 6, 1926	\$200,000,000	<p>the special account as heretofore, thus offsetting the effect of the gold imports.</p> <p>Nov. 7, 1926--Committee recommended that it may be desirable to purchase up to \$100,000,000 of securities during the coming 6 weeks to be sold again at such time as credit conditions appear to make that course desirable. If business and credit conditions continue as at present, it would seem wise to sell the securities shortly after the turn of the year, but in the event of a decline in business activities, such as some observers think may occur, it then might be desirable to retain a part of the securities in the Federal Reserve portfolio. In any event, we should be prepared for either course.</p>	<p>At meeting of Board on Nov. 10, 1926, Board approved a letter to acting chairmen of Committee stating that Board understands that as the Committee views the situation at this time, there is no need for action looking toward a change in the amount of the Special Investment Account, as approved by the Board on Sept. 10, 1926 and in this view, the Board concurs. The Board, therefore, construes the Committee's suggestion as an expression of opinion on the part of the Committee that in the event of a future change in the present situation, it may be desirable to give consideration to increasing the account temporarily. The Board assumes that should there be any change in the present situation or any new developments which would seem to warrant increasing the account temporarily, the Committee will confer further with the Board.</p>
Mar. 4, 1927	\$200,000,000	<p>Mar. 5, 1927--Following statement by Federal Advisory Council, issued after its meeting on February 18, that it did not believe that there was anything in the business situation necessitating any change in present open-market policy, although should interest rates continue to decline the Federal Reserve banks should reduce their holdings of bills bought</p>	<p>On March 8 the Board approved of the Committee allowing the maturities to run off with the understanding that, at the meeting of the Committee called for March 21st, it could be determined if and when it would be advisable to replace them.</p>

DECLASSIFIED
 Authority Ex Order 12958

Holdings System Investment Account		Committee Recommendations	Review by Federal Reserve Board
Date	Amount		
Mar. 20, 1927	\$176,324,000	<p>in the open market, the Board transmitted the statement to the Board of Directors of the Federal Reserve Bank of New York for any recommendations that they might care to make and with the statement that the Board thinks it pertinent in connection with consideration of recommendation to take cognizance of the gold imports since the first of the year and the present state of the acceptance market, and to consider whether there should be any change in the volume of investments in the System's Special Investment Account, especially in view of the March 15 maturities. The New York directors replied that if the Committee concurred, it would be well to let the March 15 maturities run off.</p> <p>Mar. 21, 1927--Committee agreed that it would be desirable to replace the \$25,000,000 of March 15 maturities immediately and in view of reduction of system holdings of bankers acceptances due to sale to a foreign correspondent in replacement of securities matured on March 15, the Committee should be prepared to make additional purchases of Government securities up to an amount of about \$50,000,000, if necessary, to avoid drastic tightening of the money market.</p>	<p>On March 21, 1927, the Board approved the replacement of the \$25,000,000 of matured Government securities and advised the Committee that it would hold itself ready upon advice from the Committee, as a Committee, or from the Federal Reserve Bank of New York, if the Committee prefers to leave the matter in the hands of the Federal Reserve Bank, to act upon a recommendation for the purchase of an additional \$50,000,000 of short-term Government securities at any time such a course should appear to be desirable.</p>

Holdings System Investment Account		Committee Recommendations	Review by Federal Reserve Board
Date	Amount		
May 10, 1927	\$135,812,000	<p>During the period between March 21-May 11, after telephone consultation with the members of the Open Market Investment Committee and the Federal Reserve Board, it was arranged to purchase from the Bank of France about \$60,000,000 of gold and to sell to them a like amount of the September maturity of certificates of indebtedness held in the Open Market Investment account. Securities were sold to offset the \$9,000,000 to \$12,000,000 of gold which had already arrived, but no arrangements were made to offset the affect of the gold which was then scheduled to arrive.</p> <p>May 11, 1927--Committee submitted the following recommendations of policy for the period ending August 1: (1) That no further sales of System securities be made in order to offset gold imports known or anticipated, and, (2) That it be the policy of the Committee gradually to acquire, if possible to do so without undue effect upon the money market, sufficient additional short-term Government obligations to bring the total of the Committee's investment account up to \$250,000,000.</p>	<p>On May 13, 1927, the Board approved the recommendations of the Committee with the feeling that the securities proposed to be purchased should be accumulated slowly and with a view to the possibility that it may not be advisable to purchase the full amount authorized within the time limit mentioned.</p>
June 15, 1927	\$244,256,300	<p>June 16, 1927--In a letter to the Board Governor Strong expressed the view of the officers of the New York bank that it might be well to defer further purchases until possibly after the first of July even though in the meantime money rates might advance somewhat in the general market. In a letter dated June 20, 1927, Governor Strong again reviewed</p>	<p>On June 22, 1927, the Board advised the Committee that it did not consider the \$100,000,000 of securities purchased by the Committee since May 13, 1927, (to offset gold earmarked for foreign correspondents) as forming part of the authority granted to the Committee by the Board on that date.</p>

DECLASSIFIED
 Authority *Ex Order 12958*

Holdings System Investment Account		Committee Recommendations	Review by Federal Reserve Board
Date	Amount		
July 26, 1927	\$265,998,300	<p>the situation stating that the bank was quite willing to watch the effect of somewhat higher rates for a short period, but that it would be hazardous to allow a general revision of the level of interest rates to occur.</p> <p>Governor Strong came to Washington on June 22 and at a meeting of the Board made an extended review of present and prospective conditions.</p> <p>July 27, 1927--Committee voted that its authority be extended for the purchase, as and when conditions warrant, of not to exceed \$50,000,000 of investments.</p>	<p>Committee's action was taken in joint meeting with Federal Reserve Board which approved recommendation.</p>
Nov. 1, 1927	\$405,222,000	<p>Nov. 2, 1927--Committee recommended adoption of program of (1) continued offsetting of gold movements by purchases and sales of securities, (2) any considerable advances in money rates toward end of year would be dealt with only if necessary by temporary purchases of securities, (3) sales of securities in January in amounts sufficient to insure retirement of seasonal issue, and, (4) in event of renewal of gold movements to the United States, gold may be purchased abroad if necessary or exchange on foreign countries purchased so as to arrest a further importation of gold, the limit of such purchases to be \$100,000,000 and such purchases to be offset the same as gold movements.</p>	<p>Board approved policy as recommended.</p>
Dec. 12, 1927	\$419,934,000	<p>Dec. 13, 1927--Governor Strong transmitted opinion of New York directors that it might be well to let banks borrow additional funds up</p>	<p>On December 14, Board expressed concurrence in directors' opinion.</p>

Holdings System Investment Account		Committee Recommendations	Review by Federal Reserve Board
Date	Amount		
Jan. 8, 1928	\$422,030,000	to \$100,000,000 or \$150,000,000 rather than to undertake to ease the situation by making further purchases of securities. Jan. 9, 1928--Committee concurred in opinion of New York bank that it might be advisable to sell from \$40,000,000 to \$50,000,000 of Governments.	Board voted to approve sale of not to exceed \$50,000,000 of securities if and when deemed advisable by Committee.
Jan. 11, 1928	\$399,530,000	Jan. 12, 1928--Recommended that Committee program should now work toward somewhat firmer money conditions as far as necessary to check undue rapid further increases in volume of credit and in order to accomplish this, Committee would expect to sell further amounts of securities and, if necessary, to deal with gold movements in such manner as necessary to carry out the program.	Board authorized the Committee during the next two months to make sales of Government securities from time to time with accompanying authority temporarily to purchase such securities should developments not now in sight require such action.
Jan. 15, 1928	\$371,030,000	Jan. 16, 1928--Acting Chairman of Committee reported sale of Government securities to a point at which further securities would not be absorbed by market except at reduced price and it was proposed to withhold further sales for a day or two.	Board expressed sympathy with the proposal reported but that it would not favor any prolonged departures from the program recommended by the Committee and approved by Board on January 12.
Jan. 23, 1928	\$341,019,000	Jan. 24, 1928--Committee recommended sale of an additional \$50,000,000.	No objection expressed by Board to proposed sale.
Feb. 9, 1928	\$273,194,000	Feb. 10, 1928--New York directors expressed opinion that no further sales of securities be made for the next three or four days.	Board expressed agreement with conclusion of directors although there was a feeling on the part of some members that further sales should be suspended indefinitely.

Holdings System Investment Account		Committee Recommendations	Review by Federal Reserve Board
Date	Amount		
Feb. 26, 1928	\$273,194,000	Feb. 27, 1928--New York directors reached conclusion that no further sales of securities should be made at this time.	This opinion shared by all members of the Board.
Mar. 25, 1928	\$273,269,000	Mar. 26, 1928--Committee recommended that the policy recommended in January be continued until another meeting is held or until a change in the situation makes an earlier reconsideration desirable. The Committee would expect to make such changes in the open-market account as are necessary to carry out the policy.	Board approved policy recommended by Committee and authorized Committee to make further sales of Government securities from time to time up to May 1, 1928, at about which time another meeting of the Committee with the Federal Reserve Board will be held unless a change in the situation makes earlier reconsideration desirable.
Apr. 10, 1928	\$253,038,000	Apr. 11, 1928--Deputy Governor Case reported plans to sell \$20,000,000 to \$25,000,000 of securities in order to keep a grip on the situation.	Governor reported he had advised Mr. Case there would be no objection to sale of securities contemplated.
Apr. 17, 1928	\$210,438,000	Apr. 18, 1928--Mr. Case reported New York directors felt that situation was getting out of control largely because of money coming into New York presumably attracted by high call rate.	Increase in discount rate at Boston Bank was under consideration and Board approved increase apparently on basis that sales of securities were not having desired effect.
Apr. 28, 1928	\$152,318,000	Apr. 29, 1928--In view of continued expansion of bank credit at what seemed to be an unduly rapid rate, notwithstanding the sales of securities and increase in discount rates, the Committee recommended that the general policy adopted at meeting on March 26 be continued.	On May 2 Board expressed agreement with procedure suggested by the Committee and approved its recommendations, but in doing so, reserved the same right that the Committee reserved, of changing its position should conditions develop which would make a change advisable.

DECLASSIFIED
 Authority Ex Order 1992

Holdings System Investment Account		Committee Recommendations	Review by Federal Reserve Board
Date	Amount		
May 24, 1928	\$100,000,000	May 25, 1928--Committee saw no reason to change policy adopted at last meeting and expressed opinion that it may be necessary to assert further pressure on the situation and, to this end, that it may be advisable to make further sales of securities.	Board approved policy outlined and approved further sales if such sales were deemed necessary by the Committee.
July 17, 1928	\$84,988,000	July 18, 1928--Committee recommended that no open-market action be taken at present or until moderately high level of money rates has continued long enough to provide a testing of the credit situation which may have effect of checking unsound uses of credit. Committee expressed opinion that amount of member bank borrowing and present money rates would not be wholesome if continued over an extended period, that the System should be prepared to exercise its influence to modify these conditions and that situation should have careful continued study.	
Aug. 12, 1928	\$75,488,000	Aug. 13, 1928--Committee expressed opinion that conditions did not necessitate immediate purchases, that there were indications that with approaching fall demands for credit, it might soon be possible or necessary to take steps looking toward the reduction or at least the avoidance of the necessity of any substantial increase in volume of member bank discounts and with these facts in view, Committee recommended the policy of purchasing securities whenever it should become necessary to avoid undue credit stringency.	On August 16 the Board expressed agreement with the Committee that the seasonal requirements would probably develop a strain upon the future credit situation which may react unfavorably upon commerce and industry and that if such a situation should develop, the System should take some action to relieve the strain. Board stated, however, that it would not care to agree to purchase of securities except as last resort, and with this understanding, it approved the purchase of securities up to \$100,000,000.

DECLASSIFIED
 Authority Ex Order 1992

Holdings System Investment Account		Committee Recommendations	Review by Federal Reserve Board
Date	Amount		
Nov. 14, 1928	\$75,488,000	Nov. 15, 1928--Committee renewed the recommendation contained in its report of August 13 that it be the policy of the System to purchase Government securities if and when it might become necessary to avoid an acute stringency.	On November 27 the Board refused to approve recommendation for reasons stated and advised committee that if adjustments of temporary credit situation were advisable it would hold itself in readiness to act promptly upon written or telephone request from the Committee in an amount not to exceed \$25,000,000.
Jan. 6, 1929	\$75,592,000	Jan. 7, 1929--Committee expressed opinion that System should be prepared to sell up to \$50,000,000 of securities during January or February if amount of member bank indebtedness should diminish to an amount where money rates became so easy as to stimulate further increases in total volume of credit beyond that required for business purposes, but that there was no occasion at that time to make a recommendation either as to purchase or sale of securities.	No action by Board.
Feb. 1, 1929	\$75,592,000		Feb. 2, 1929-- Board expressed no objection to Governor advising committee that Board sees no reason why sales of securities should not be made in small amounts.
Feb. 4, 1929	\$75,592,000		Feb. 5, 1929-- Governor of New York Bank was present at meeting of Board and referred to possible necessity of increase in the discount rate should other efforts fail to halt increasing volume of credit. Majority opinion of members of the Board was that further efforts should

DECLASSIFIED
 Authority *Ex Order 12958*

Holdings System Investment Account		Committee Recommendations	Review by Federal Reserve Board
Date	Amount		
Mar. 31, 1929	\$40,000,000	Apr. 1, 1929--Committee informally agreed that there appeared to be no need to consider the purchase of Government securities and that, as the Committee already had authority to sell Government securities, there was no occasion for a further recommendation at that time.	be made along the line of so-called direct action, and that a rate increase should not be considered until the System is satisfied that all other means had been exhausted.
May 20, 1929	\$20,500,000		May 21, 1929-- Federal Advisory Council publicly stated that it continued to agree with the view of the Board that an excessive amount of the country's credit had been absorbed in speculative security loans, that the policy pursued by the Board had had a beneficial effect and that efforts in this direction should be continued. Council recommended that it grant permission to raise the discount rate to 6% at the Federal Reserve banks requesting it. (All during this period up to August when the rediscount rate of 6% was approved for the Federal Reserve Bank of New York, there was continued consideration of discount rates in connection with the Board's policy of so-called direct action.)

DECLASSIFIED
 Authority *Ex Order 1994*

Holdings System Investment Account		Committee Recommendations	Review by Federal Reserve Board
Date	Amount		
Aug. 7, 1929	\$31,125,000	Aug. 8, 1929--The Governor's Conference expressed the opinion that increased credit demands incident to autumn requirements should be met so far as possible by an increase in bills and that this procedure can best and most safely be undertaken and with least risk of abuse in the use of the Federal Reserve credit under the protection of an effective discount rate in New York. Conference recommended that the Board act favorably on any application that may be made by the Federal Reserve Bank of New York for an increase in its existing rate.	The rate of 6% established by the New York directors was approved by the Board on August 8, after the Board had voted to adopt the report received from the Governors as a basis of Federal Reserve policy during ensuing months.
Sept. 16, 1929	\$36,125,000		Sept. 17, 1929-- The Federal Advisory Council expressed belief that the increasing of the New York Bank rate to 6% and the reduction in the buying rate for bills in the open market had worked satisfactorily and that such action had the approval of the Council.
Sept. 23, 1929	\$26,128,000	Sept. 24, 1929--Committee favored a further increase of open-market holdings for purpose of avoiding, if possible, any increase in total volume of member bank discounts during the fall season if this could be done without stimulating unnecessary or abnormal expansion of member bank credit. It favored an increase of these holdings by continued purchase of bills if these could be obtained and if not, by purchases of short-term Governments. Committee recommended that it be authorized to purchase not to exceed \$25,000,000 a week of short-term securities with the understanding that there	On October 1, Board approved proposed program and authorized purchase of short-term Governments at not to exceed \$25,000,000 a week. Board stated that its approval was mainly for seasonal reasons and should not be interpreted as a reversal of former policies.

DECLASSIFIED
 Authority Ex Order 12958

Holdings System Investment Account		Committee Recommendations	Review by Federal Reserve Board
Date	Amount		
Oct. 28, 1929	\$43,500,000	would be a careful current review of the consequences of such purchases.	Oct. 29, 1929--Board expressed the definite opinion that the most helpful thing at that time would be a reduction in the discount rate of the New York Bank to 5% coupled with an understanding that the System would suspend, for the time being, any purchases of Government securities pending future developments in the credit situation as a result of the rate reduction, and further consideration and approval by the Board.
Oct. 29, 1929	\$47,500,000	Oct. 30, 1929--Governor Harrison advised of purchases the day before of \$59,000,000 of Government securities for the New York Bank under authority of the board of directors who had authorized the purchase of securities by the bank in an unlimited amount in the discretion of the Governor.	No action taken by the Board.
Nov. 6, 1929	\$72,500,000	Nov. 7, 1929--Directors of New York Bank expressed the opinion that the policy of the System for the coming weeks should be to keep a plentiful supply of money in the market through the purchase of bills if available, and, if not, through the purchase of Governments.	
Nov. 11, 1929	\$97,500,000	Nov. 12, 1929--Committee recommended that the present limit of \$25,000,000 per week on the purchase of Government securities be removed and that the Committee be authorized in lieu	On November 13, the Board advised the Committee that it had authorized the Governor, should the Board not be immediately available to act on its

DECLASSIFIED
 Authority *Ex Order 1992*

Holdings		Committee Recommendations	Review by Federal Reserve Board
System Investment Account	Account		
Date	Amount		
		thereof, to purchase not to exceed \$200,000,-000 of securities, with the understanding that there would be a careful current review by the Board and the Committee of the consequences of any such purchases.	<p>behalf, in giving approval in an emergency to purchases of securities, and that if an acute emergency arises where it was not practicable to confer with the Governor, the Board would interpose no objection to a purchase operation being undertaken with the understanding that prompt advice would be furnished the Board.</p> <p>On November 25, 1929, Board advised Committee that it had reconsidered its action of November 13, 1929, and had voted to approve the general principles as to future policy laid down in the report of the Open Market Investment Committee dated November 12 and the resolution adopted by the board of directors of the New York Bank on November 7, and had authorized the Committee to purchase from time to time not to exceed in the aggregate \$200,000,000 of securities, with the understanding that if at any time the Board feels that purchases are being made too rapidly, it will so express itself to the Committee and reconsider the whole situation.</p>
Jan. 27, 1930	\$277,500,000	Jan. 28, 1930--Committee expressed opinion that no open-market operations in Government securities were necessary at that time either to halt or to expedite the trend of credit, but recommended that the minimum buying rate for bills be reduced so that the Federal Re-	<p>On Jan. 30, the Board considered a request from the Federal Reserve Bank of New York for a reduction to $3\frac{1}{2}\%$ in the minimum buying rate and advised that the request had been taken under review and had determined the minimum</p>

DECLASSIFIED
 Authority Ex Order 12958

Reproduced from the Unclassified / Declassified Holdings of the National Archives

Holdings System Investment Account		Committee Recommendations	Review by Federal Reserve Board
Date	Amount		
Mar. 4, 1930	\$277,500,000	serve banks might have such flexibility in their bill operations as to avoid the hardening of rates.	<p>buying rate to be $3\frac{3}{4}\%$. On February 12, 1930, the Board reduced to $3\frac{1}{2}\%$ the minimum buying rate on acceptances at the New York Bank.</p> <p>Mar. 5, 1930--The Governor of the Board was authorized to request that there be submitted to the New York directors a suggestion to purchase gradually not to exceed \$50,000,000 of securities during the next two weeks or so. On March 7, Mr. Case reported authorization by the directors of the New York Bank to purchase up to \$50,000,000 of securities in accordance with the Board's suggestion. On March 10, 1930, the minimum buying rate on acceptances by the New York Bank was reduced to 3%.</p>
Mar. 23, 1930	\$307,250,000	Mar. 24, 1930--Committee expressed opinion that there was no occasion for further purchases of Government securities, but in the interest of flexibility and preparedness for the unexpected, favored a reduction in the minimum buying rate on bills to $2\frac{1}{2}\%$.	<p>On March 25, action on request of New York Bank for reduction in minimum buying rate on bills to $2\frac{1}{2}\%$ was deferred. Action was again deferred at the meeting of the Board on March 26. On April 8, 1930, Board informed Committee that it concurred in Committee report of March 24, except in the event of some unforeseen development, bills should not be bought below 3% although in view of the trend of bill rates since the date of the meeting the Board desired to keep under review the question of a reduction to $2\frac{1}{2}\%$ in the minimum buying rate.</p>

DECLASSIFIED
 Authority *Ex Order 1994*

Holdings System Investment Account		Committee Recommendations	Review by Federal Reserve Board
Date	Amount		
r. 23, 1930	\$327,300,000	Apr. 24, 1930--New York directors voted to establish rediscount rate of 3% predicated upon approval by Board of minimum buying rate of $2\frac{1}{2}\%$ with the idea of putting into effect a rate of $2\frac{3}{4}\%$, if the discount rate was reduced to 3%.	Board held request for $2\frac{1}{2}\%$ buying rate under review and determined minimum buying rate to be $2\frac{3}{4}\%$ at meeting on April 30. On May 1 the Board approved a minimum buying rate of $2\frac{1}{2}\%$.
May 20, 1930	\$327,300,000	May 21, 1930--Committee voted to go on record that recommendations as to discount rate of any Federal Reserve bank is not within Committee's proper province and the directors of any Federal Reserve bank must be free at any time to change the discount rate for their bank, subject only to the review and determination of the Federal Reserve Board. Committee stated that it did not appear that any affirmative recommendation as to open-market operations was advisable at that time.	
May 28, 1930	\$327,300,000	May 29, 1930--Governor Harrison reported feeling on the part of the directors of the New York Bank that action should be taken to further ease the credit situation and had made a recommendation that the System proceed to purchase Government securities at the rate of \$25,000,000 a week; that seven banks concurred in the recommendation, four were opposed, and one interposed no objection.	On June 3 Board authorized purchase of not to exceed \$25,000,000 of securities a week for the next two weeks, the situation to be reviewed at the end of that time.
June 22, 1930	\$377,300,000	June 23, 1930--Committee expressed opinion that it was not desirable for System to undertake any further purchases of securities.	

DECLASSIFIED
 Authority *Ex Order 1992*

Holdings System Investment Account		Committee Recommendations	Review by Federal Reserve Board
Date	Amount		
Aug. 5, 1930	\$377,300,000	Aug. 6, 1930--Committee requested approval of purchase of \$25,000,000 of securities during current week.	Board gave approval requested.
pt. 2, 1930	\$402,300,000	Sept. 3, 1930--Committee recommended authorization of purchase of securities up to \$50,000,000, with understanding that authority should be exercised only if necessary as a supplement to bill purchases in offsetting seasonal demands for credit, gold exports, or influences toward firmer money which might interfere with the continuance of present money conditions.	Board granted authority requested.
Sept. 24, 1930	\$402,300,000	Sept. 25, 1930--Committee recommended authorization to supplement bill purchases by purchases of Government securities in the event that the seasonal demand for Federal Reserve credit, gold exports, or other factors, should tend unnecessarily to tighten present money rates, and that in the event that conditions develop which would require sales of securities to execute this policy, the Committee should be authorized to make such sales; it being understood that if the Committee should have to buy or sell more than \$100,000,000 of securities to maintain the status quo, new authority should be procured in accordance with the prescribed procedure.	On October 2, 1930, the Committee was advised that the Board was prepared to approve the purchase or sale of Government securities within the limits proposed for the purpose of maintaining stability of rates, such authority to run until an agreeable date next January, unless a change in conditions before that time should make a review and reconsideration of open-market policy advisable at an early date. The advice also stated that it was understood that such purchases or sales of securities would be made in consultation with the Governor of the Board or acting executive officer, except purchases or sales made in small amounts in pursuit of an understood program, or in the event of a sudden emergency.

19.

Holdings System Investment Account		Committee Recommendations	Review by Federal Reserve Board
Date	Amount		
Oct. 21, 1930	\$402,300,000		Oct. 22, 1930--In considering a purchase of sterling exchange by the Federal Reserve Bank of New York, the Board stated that it is assumed that the special operations in foreign exchange will be considered as part of the open-market program subject to the policy agreed upon by the Open Market Committee and approved by the Board.
Nov. 17, 1930	\$402,300,000		Nov. 18, 1930--The Federal Advisory Council expressed the opinion that the present situation would be best served if the natural flow of credit were unhampered by open-market operations or changes in the discount rate; the seasonal demands during the balance of the year should be met by rediscounting on the part of member banks.
Dec. 19, 1930	\$402,300,000	Dec. 20, 1930--Committee expressed willingness to leave it to the judgment of the New York Bank whether some additional amount of Government securities should be purchased within the \$100,000,000 authority with the understanding that the New York Bank would keep in close touch with the members of the Committee.	
Jan. 5, 1931	\$417,729,000		Jan. 6, 1931--Board approved Governor Meyer's action in advising New York, that he felt, in the light of all circumstances, the Board interposed no objection to the purchase by the New York Bank of approximately \$45,000,000

DECLASSIFIED
 Authority *Ex Order 1994*

Holdings System Investment Account		Committee Recommendations	Review by Federal Reserve Board
Date	Amount		
Jan. 20, 1931	\$402,300,000	Jan. 21, 1931--It was the sense of the committee that it should be the policy of the System to continue an easy money policy in the best interest of trade and commerce, but that it would be desirable to dispose of some of the System's holdings of securities as and when opportunity affords without disturbance or tightening of the money position.	of securities from two member banks or the purchase of \$32,000,000 of securities made by the Committee because of banking and credit strain over the year end. On January 30, the Board advised Committee Board approved of recommendation.
Feb. 16, 1931	\$402,300,000		Feb. 17, 1931--Federal Advisory Council reiterated the recommendation made by its previous meeting that the situation would be best served if the natural flow of credit were unhampered by open-market operations or changes in the discount rates.
Apr. 28, 1931	\$402,300,000	Apr. 29, 1931--Committee recommended authorization if and when it appears necessary or advisable to purchase up to \$100,000,000 of securities.	On May 7 Board authorized, if and when it appears to committee necessary or advisable, to purchase up to \$100,000,000 of securities.
June 21, 1931	\$444,468,000	June 22, 1931--Committee voted to buy up to \$50,000,000 of securities with the understanding that there would be further conferences by telephone or otherwise between members of the Committee before any purchases were made beyond that amount.	

DECLASSIFIED
 Authority *Ex Order 1994*

Holdings System Investment Account		Committee Recommendations	Review by Federal Reserve Board
Date	Amount		
July 6, 1931	\$494,471,000	July 7, 1931--Committee agreed to proceed with purchase of an additional \$50,000,000 of securities.	
Aug. 9, 1931	\$524,468,000	Aug. 10, 1931 --To counteract tightening influence of \$50,000,000 of maturing bills held by Bank of France, Executive Committee of New York bank authorized officers to purchase up to \$50,000,000 of Government securities.	Governor Meyer and Mr. Miller were present at meeting in New York and, being familiar with the attitude of the Board, did not express objection to the action.
Aug. 10, 1931	\$524,468,000	Aug. 11, 1931--Committee recommended authorization to purchase up to \$120,000,000 of securities if and when it became necessary or advisable to do so, or if necessary or advisable to sell up to a similar amount.	On August 18, Board advised Committee that it gave a general approval to the contemplated purchase of Government securities, and in order that Committee may be prepared to act promptly on the current application of the policy of purchase, it had authorized the Governor of the Board, until such time as the matter of open-market policy should be reviewed and further considered, to act on its behalf with respect to the purchase of an aggregate of \$120,000,000 of Government securities. The Board also stated that it was not authorizing the Governor to exercise its approval with regard to sales of securities and that in the event conditions should take such a turn as to make sales of securities from System Account advisable in the judgment of the Executive Committee of the Conference, the Board would wish to consider the matter.

DECLASSIFIED
 Authority *Ex Order 1992*

Holdings System Investment Account		Committee Recommendations	Review by Federal Reserve Board
Date	Amount		
Oct. 21, 1931	\$524,468,000		Oct. 22, 1931--Expressed as feeling of members of the Board at meeting on October 22, 1931, that, if recommended by the Executive Committee of the Open Market Policy Conference, they would be inclined to approve the sale of securities from the open-market account, or to allow maturities to run off, to the extent of \$120,000,000.
Oct. 25, 1931	\$524,468,000	Oct. 26, 1931--Committee asks for the same leeway with respect to the sale of Government securities as it possessed with respect to purchases, as recommended by the resolution of August 11.	Board not disposed to grant authority requested, but no formal action taken.
Nov. 29, 1931	\$524,468,000	Nov. 30, 1931--While Committee was of the opinion that no occasion for immediate purchase of Government securities existed, it requested authority, in order to be prepared if and when occasion arose, to buy up to \$200,000,000 of Government securities before the end of the year and authority in its discretion to sell any security so bought after the turn of the year if conditions should then permit.	Board granted authority requested with understanding that it would run until January 30 or such earlier date as another meeting of the committee
Jan. 11, 1932	\$566,816,000	Jan. 12, 1932--Committee recommended that it be authorized if and when desirable to purchase not to exceed \$200,000,000 of securities such purchases to be made only after the approval of the Executive Committee at a meeting to be called for the purpose of considering the occasion or need therefor.	On January 19, 1932 Board granted the authority requested with the understanding that any action taken by the Executive Committee would be subject to approval of the Federal Reserve Board. The Board also reserved the right to review and request its approval if and when cir-

DECLASSIFIED
 Authority Ex Order 1991

Holdings System Investment Account		Committee Recommendations	Review by Federal Reserve Board
Date	Amount		
b. 23, 1932	\$566,816,000	Feb. 24, 1932--Committee recommended that subject to the approval of the Federal Reserve Board the Executive Committee be authorized to purchase up to \$250,000,000 of securities at the approximate rate of \$25,000,000 per week; it being understood that purchases under this program should be made after a meeting of the Executive Committee called for the purpose of considering such purchases.	cumstances justify. Board granted authority requested and at immediate subsequent meeting of the Executive Committee of the Open Market Conference, it was decided to proceed with the purchases of Government securities if and when the Glass-Steagall bill was enacted in the law.
Apr. 4, 1932	\$696,816,000	April 5, 1932--Committee voted to continue purchases of securities at \$25,000,000 a week previously authorized.	
Apr. 7, 1932	\$711,816,000	April 8, 1932--New York directors voted subject to approval of Board that bank should purchase for its own account \$50,000,000 of Government securities.	Board concurred in Governor Meyer's advice to Governor Harrison that inasmuch as a meeting of the Open Market Policy Conference would be held during the next week for the specific purpose of considering the whole matter of open-market policy, the New York bank should postpone any purchases of securities until the Conference had had an opportunity to canvass the situation in all its aspects.
Apr. 11, 1932	\$736,816,000	April 12, 1932--Committee requested authority to purchase up to \$500,000,000 of Government securities in addition to the unexpired authority granted on February 24, and that these purchases, at least in the initial weeks, should be at a rate as rapid as may be practicable and if possible should amount to \$100,000,000 in the current statement week.	Board granted authority requested.

DECLASSIFIED
 Authority Ex Order 12958

Reproduced from the Unclassified / Declassified Holdings of the National Archives

Holdings System Investment Account		Committee Recommendations	Review by Federal Reserve Board
Date	Amount		
May 16, 1932	\$1,234,071,000	May 17, 1932--Committee requested authority to continue the purchase of Government securities as may seem advisable from week to week, but not to exceed an aggregate of \$500,000,000 without another meeting of the Open Market Policy Conference.	Authority requested granted by Board. In joint meeting of the Federal Reserve Board and Open Market Policy Conference, the issuance of a statement to the press was approved; it stated that the Governors of the Federal Reserve banks met with the Federal Reserve Board and it was decided to continue open-market operations by the purchase of Government securities, the extent and amount to be determined from time to time as conditions justify.
June 15, 1932	\$1,521,333,000	June 16, 1932--Committee agreed to a proposal that (1) until further notice sufficient purchases of Government securities should be made to keep excess reserves of member banks at a figure between \$250,000,000 and \$300,000,000, (2) that the System should continue to show an increase from week to week in total holdings of Government securities in order to avoid the creation of a feeling that the policy of the System had been changed, and (3) that in the coming week it appeared that the purpose might be accomplished by smaller purchases.	
July 13, 1932	\$1,609,583,000	July 14, 1932--Conference requested authority to buy securities to the extent necessary to maintain excess reserves at approximately \$200,000,000, total purchases to be limited to the amount previously authorized which was \$207,000,000. For the guidance of the	Authority requested was approved by Board.

DECLASSIFIED
 Authority Ex Order 12958

Holdings System Investment Account		Committee Recommendations	Review by Federal Reserve Board
Date	Amount		
		Executive Committee, it was the sense of the Conference that except in unusual or unforeseen circumstances purchases should not exceed \$15,000,000 a week, but for the next 4 weeks should be not less than \$5,000,000 a week.	
Nov. 14, 1932	\$1,639,607,500	Nov. 15, 1932--Conference was of the opinion that no change should be made in the amount of System holdings of Government securities pending another meeting of the Conference during the first week in January.	
Jan. 4, 1933	\$1,639,607,500	Jan. 5, 1933--Conference was of opinion that no change should be made in the System's policy intended to maintain a substantial amount of excess reserves, but recommended that authority be given (a) to reduce the System's holdings of short-term Treasury bills in order to offset such amount of the return flow of currency as may seem desirable provided such action did not result in any substantial reduction in existing excess reserves, and (b) if necessary, to purchase Government securities in sufficient amounts to prevent excess reserves falling below the present general level.	Recommendation approved by the Board. (Press statement issued in connection with this action.)
Feb. 26, 1933	\$1,629,399,400	Feb. 27, 1933--Secretary of Treasury suggested advisability of purchasing during the week securities in such amounts up to \$100,000,000 as might be necessary to steady the market.	Discussion at Board meeting indicated that members of Board were not disposed to favor the suggested action.

DECLASSIFIED
 Authority *Ex Order 12958*

Holdings System Investment Account		Committee Recommendations	Review by Federal Reserve Board
Date	Amount		
Apr. 21, 1933	\$1,629,399,400	Apr. 22, 1933--It was sense of the Conference that, subject to the approval of the Federal Reserve Board, the Executive Committee be authorized to arrange with the Secretary of the Treasury from time to time to purchase up to \$1,000,000,000 of Government securities to meet Treasury requirements.	<p>On April 26, 1933, the Board advised the Chairman that it did not think it advisable to make any change in the System holdings of Government securities that week and that action on the resolution of the Conference had been deferred.</p> <p>On May 12, 1933, the Board advised the Chairman of the Conference that it authorized the Committee to proceed with its proposed purchases of Government securities up to an aggregate of \$1,000,000,000. The Board also stated that it would have the whole matter of Open market policy under constant review and would advise the Committee of changes to be made in the program in order more fully to adjust it to the requirements of the national situation.</p>
May 22, 1933	\$1,629,399,400	<p style="text-align: right;">authority</p> <p>May 23, 1933--Executive Committee voted that given to it at previous meeting of the Conference should be amended to remove the restriction, "to meet Treasury requirements," in order that purchases of securities may be made promptly if, in the judgment of the Committee, such purchases are considered desirable, whether or not to meet Treasury requirements.</p> <p>Committee also voted to purchase \$25,000,000 of Government securities during the statement week provided the majority of Conference ap-</p>	

DECLASSIFIED
 Authority Ex Order 12958

Holdings System Investment Account		Committee Recommendations	Review by Federal Reserve Board
Date	Amount		
June 28, 1933	\$1,768,150,000	proved the proposed extension of authority to the Executive Committee. June 29, 1933--Executive Committee decided to purchase approximately \$20,000,000 of securities during the current week and no decision was reached as to definite action beyond the week because of the great uncertainty as to the position of the dollar and other influences affecting business activity.	
July 20, 1933	\$1,810,350,000	July 21, 1933--It was the sense of the Federal Open Market Committee that the authority to purchase up to \$1,000,000,000 of securities be reaffirmed and be continued for the unused portion of the authority.	Recommendation approved by Board.
Sept. 20, 1933	\$1,850,350,000	Sept. 21, 1933--Executive Committee voted that purchases not to exceed \$36,000,000 be made in the current statement week with the understanding that a lesser amount might be purchased if a change in conditions appeared to make that advisable.	
Oct. 9, 1933	\$2,102,150,000	Oct. 10, 1933--Committee voted that authority to purchase \$1,000,000,000 of securities be continued and reaffirmed for the unused portion of the authority.	On October 12, 1933, Board authorized the Executive Committee to proceed with the proposed purchases of securities to the extent of the unused portion of the aggregate of \$1,000,000,000. The Board again stated that it would have the whole matter of open-market policy under constant review and would advise the Committee of changes to be made in the program in order more fully to adjust it

DECLASSIFIED
 Authority Ex Order 12958

Holdings System Investment Account		Committee Recommendations	Review by Federal Reserve Board
Date	Amount		
Oct. 24, 1933	\$2,168,150,000	Oct. 25, 1933--Committee agreed that the policy of gradually diminishing purchases should be followed and that \$18,000,000 of securities should be purchased during the statement week.	to the requirements of the national situation.
Mar. 4, 1934	\$2,223,149,500	Mar. 5, 1934--Committee recommended that the authorization for the purchase of Government securities renewed on October 10, be reduced to \$100,000,000.	Recommendation approved by Board with understanding that the Board would be kept informed currently by the Executive Committee of its program of purchases and as to any development in the situation which might affect the application of the program.
Mar. 23, 1934	\$2,223,149,500	Mar. 24, 1934--The directors of the Chicago bank requested authority to allow its holdings of securities maturing on April 15, 1934, to run off without reinvestment.	On April 12 Board expressed opinion to Chicago bank it would be undesirable for the bank to take the contemplated action.
May 22, 1934	\$2,223,149,500	May 23, 1934--At meeting of Executive Committee, question was raised whether there was a possibility of a purchase of Government securities from the Federal Reserve System by the Treasury for the account of the stabilization fund. The question was discussed wholly tentatively, but no conclusion was reached.	
June 25, 1934	\$2,223,149,500	June 26, 1934--Committee recommended that Executive Committee be authorized to sell up to \$500,000,000 of securities to the Treasury, if and when it seemed desirable, it being pre-	On August 15 Governor Black advised Governor Harrison that since the Treasury had taken no steps to discuss the purchase of securities, it appeared un-

DECLASSIFIED
 Authority Ex Order 12958

Holdings System Investment Account		Committee Recommendations	Review by Federal Reserve Board
Date	Amount		
Sept. 20, 1934	\$2,223,149,500	<p>ferred that any securities so sold should be of the longer maturities.</p> <p>Sept. 21, 1934--It was voted as the sense of the Conference that the Federal Reserve System was deeply interested in the present, as in the past, financing of the Treasury, and instructed the Chairman of the Committee to convey to the Secretary of the Treasury the System's interest, and to advise the Secretary that the System would continue its active aid in the financing and would be pleased to consider such suggestions as may be made for further cooperation.</p> <p>Other meetings were held by the Executive Committee and the Federal Open Market Committee during 1934 but no action was taken of a character which would require reference thereto in this memorandum.</p>	necessary for the Board to take action on the matter at that time.